No interest loan scheme pilot

Process and impact evaluation

2nd interim report

July 2024

Contents

Executive Summary

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Key findings

The No Interest Loan Scheme (NILS) Pilot currently delivers no interest loans to people in vulnerable circumstances across Great Britain. It will test the benefits to customers, society and the economy and show whether a permanent nationwide NILS can be delivered in a sustainable way. An evaluation of the NILS Pilot has been commissioned, which will cover a process evaluation as well as a quantitative, quasi-experimental impact evaluation. The first interim report was written in October 2023 and covered an early analysis of the process evaluation.

This document represents a summary of key findings from the 2nd interim stage of the evaluation covering analysis of beneficiaries' feedback on the process and analysis of loan/lender data. A final report will be written encompassing the full impact and process evaluation including full counterfactual analysis. At this stage in the evaluation of the Pilot, there are high-level findings emerging that indicate a good direction of travel, however we are aware that the loans are at an early stage of maturity and that the insights may change as the loan book ages:

The pilot appears to be having a positive impact on access to financial services for vulnerable borrowers

A total of 3,494 loans with a loan value of £2.066 million have been issued across 6 lenders, against a forecast of 6,347 loans (average loan value £591).

Loan health currently seems strong and there appears to be few issues in repaying the loan

78% of the loans are 'performing', in addition to 4% being already paid off, and 89% of beneficiaries stated they had/are having no problems repaying the loan – this is positive in the context of rising default rates across the industry since 2022 (Bank of England credit conditions survey) .

The pilot appears to be reaching the most vulnerable borrowers

Analysis based on Fair4All Finance's segmentation model shows that, at an overall level, over half of the loans (51%) appear to be reaching the most vulnerable borrowers ('credit crisis families' and 'forgotten families').

The Pilot has delivered high quality services, with beneficiaries describing it as a 'lifeline'

94% of NILS borrowers are satisfied with the overall process, and 96% are satisfied with their lender. Qualitative feedback has highlighted positive financial and emotional benefits for borrowers, who valued being given a second chance.

(as of end December 2023)

Lessons learned

At this stage of the Pilot and evaluation, these findings are indicative of a positive direction of travel for the Pilot. While there is the potential for these findings to evolve over the life of the evaluation, encouragingly there are no indications of any major issues that need rectification at this point.

As a reminder, detailed below are the lessons learned from the early process evaluation which are detailed in the 1st interim report:

- **Early stakeholder engagement and buy-in was key** in the launch of the pilot.
- **A mixture of interaction methods (relationship-based vs automated) are required** in the delivery of NILS to appeal to the range of borrowers.
- **Lenders underestimated the resources required** to launch the scheme with areas such as set up, acquisition and referral and reporting requiring more resources than originally planned.
- **Support is required to help drive demand –** A decision was made by Fair4All Finance to not explicitly advertise NILS in order to reduce potential fraud. As such, it has relied upon (a) identifying potential borrowers where they have been declined for an interest bearing loan, and (b) referrals from other services. However, the current credit broking exemptions for housing associations and local authorities are opaque, and there appears to be a lack of confidence among social landlords in their interpretation of the scheme. In addition, the exemption does not cover charities, restricting what could be an additional referral route into NILS. Ongoing awareness raising by Fair4All Finance should continue to help lenders generate greater referrals.
- **Nudges can help increase application completions** given some potential beneficiaries are not going on to apply for NILS even though they have been identified as relevant.

In addition to these points, this report highlights six key additional lessons that are highlighted below:

1. **One lender can have a significant impact on a small pilot of this nature**

- Lender 6 has provided 62% of all loans issued. It is important to consider the impact their prominence may be having on overall pilot outcomes. For example, Lender 6 are reaching fewer ‘vulnerable’ beneficiaries (i.e. the two more vulnerable segments in the Fair4All Finance segmentation: credit crisis families and forgotten families) vs other lenders (42% vs 66% respectively), and their beneficiaries have a different profile more broadly to other lenders (e.g. higher employment, higher average take home pay vs other lenders).
- While the pilot has been successful at targeting the most vulnerable at an overall level (51% of all beneficiaries fall under the most vulnerable segments), more balanced lender representation may be needed to improve on this further to ensure the loans are reaching those most in need.
- Further analysis highlights that only 11% of all beneficiaries belong to minority ethnic groups (vs 17.6% of the GB population*), highlighting the opportunity to improve on the diversity of beneficiaries moving forward.

2. **A mix in delivery models means NILS is reaching a broad spectrum of those in need**

- The volume of loans that have currently been issued (3,494 loans as of end December 2023) could not have been reached without the more automated lender approach (i.e. online approach using open banking data). Lender 6 and Lender 5 represent 80% of the loans issued, highlighting the success of their automated approach in reaching beneficiaries at mass.
- On the other hand, the more relationship-based approach is also required to meet the needs of some borrowers (e.g. those with particularly low financial literacy or confidence in completing application on their own), given the complexity of circumstances they may face, and the reassurance they may need from the lender throughout the application process. qualitative feedback has highlighted that relationship-based approaches are effective at helping to build trust, ease concerns and ‘put a name to a face’.

*From Census data

Lessons learned (continued)

3. Despite the challenging backgrounds of NILS customers, this has not had a significantly detrimental impact on loan performance

- The equifax consumer profiling report* on the NILS customer showed that half of NILS consumers had defaulted repayments on an account in the 12 months prior to their NILS application, and that they showed high demand for credit (59% had engaged in credit searches in the 6 months prior to NILS application and 2 in 5 had opened an account in the 3 months prior to NILS application).
- Despite previous challenges beneficiaries may have faced, this has had minimal impact on the performance of the actual NILS loan – overall loan health is strong, with 78% of loans ‘performing’ and 4% already paid off.

*Equifax UK LTD has produced a report on behalf of NILS providers, profiling the beneficiaries granted a loan

4. At this stage, loan performance is stronger than expected, however there is variance in performance across lenders

- It is worth noting that some lenders have stronger levels of loan performance than others. Reasons for stronger loan performance are likely linked to customer profile base and lower levels of vulnerability. Reasons for weaker loan performance are likely a result of some technical issues (resulting in missed payments) and higher levels of loan maturity for some lenders.
- While overall loan performance is, at this stage, stronger than expected, it’ll be important to monitor and further understand underlying reasons for non-performance moving forwards.
- For example, qualitative beneficiary feedback has told us that, in more isolated cases, the loan may not be having the desired effect for some, e.g. falling into arrears and further into debt, loans not being used as intended, or loans not being the most appropriate option for some – particularly those in the most ‘vulnerable’ segments and with longer term challenges around debt.

5. There is opportunity for lenders to tighten processes and ensure adherence to lending criteria

- Where data on payment flexibility has been provided by the lenders, analysis shows that 98% of beneficiaries appear not to have made use, or are yet to make use, of a payment holiday, indicating that awareness or understanding of this feature may be low.
- We are aware that some lenders offer informal flexible payment options that will not be reported in the 98% figure quoted here. This lack of formal reporting by the lenders could ultimately be detrimental to customers. Also, 53% of NILS loans were issued in the last 3 months of reporting to December 2023, hence use of payment holidays may not be expected until these loans have matured further.
- Still, lenders may consider how to promote this benefit further to offer flexibility to those who may be struggling and improve long term loan performance, or ensure that any offerings of payment holidays are recorded to ensure accurate reporting.
- Similarly, lenders may also explore how they can follow up more effectively with beneficiaries falling behind on repayments. Qualitative feedback indicated that gentle ‘nudging’ emails or phone calls could help support beneficiaries who are struggling to repay their loan to avoid the ‘head in the sand’ approach.
- Given the challenges some beneficiaries are facing around repayment, further auditing/monitoring of applications may also be needed to ensure that loans are reaching those most in need and that lending rules are being adhered to.

(as of end December 2023)

Lessons learned (continued)

6. The loan is a definite lifeline, but for the most vulnerable, it may not be enough to meet their credit needs

- Over a quarter of beneficiaries surveyed (28%) stated that the loan was not enough to cover what they needed the funds for. Looking at the 87 beneficiaries that stated their loan was not enough, analysis of the survey and qualitative data shows that this is likely to be due to vulnerability of these individuals (48 were in the most vulnerable groups of the segmentation model – 'credit crisis families' or 'forgotten families') so are likely to need more money than they can afford to repay.
- This is supported by the data which implies the reason they couldn't access larger loan sums was due to affordability. For one lender, even when its loan cap was increased during the pilot, there were still the same number of beneficiaries unhappy with the loan amount, which implies that the issue was related to affordability challenges rather than the loan cap.
- Therefore, it has to be considered whether the loan amount, particularly for the most vulnerable, will fully meet their needs and what other support measures could be implemented other than just providing a larger loan amount.
- The lenders confirmed that they do signpost beneficiaries to other organisations for non-financial advice. For example, Debt Free Advice money coaching, gambling awareness/support, housing services, counselling, community organisations, etc.
- However, as of end December 2023, we are aware that no beneficiaries had taken up the opportunity of money coaching with Debt Free Advice. There appears to be confusion as to whether non-financial advice is being offered and what it relates to. We are aware that the lenders do spend a significant amount of time with customers in helping with their financial lives which could in itself be viewed as coaching.
- Qualitatively, the barriers to take up appear to be previous (less positive) experience of debt advice, perceived benefit of this service (when they have many other problems to deal with), optimism bias (my situation will get better) but also potentially the process (with beneficiaries missing email communication from lenders).
- To overcome potential barriers, lenders may consider when and how to offer non-financial products in the application journey to help boost awareness and understanding of relevance/benefits.
- Consideration should also be given to offering other types of support, for example training, careers guidance, mental health support/therapy, legal advice etc. to get to the root of the problems some of these beneficiaries face and to help support them.

(as of end December 2023)

International evidence suggests that lending and advice also needs to be accompanied by a range of different policy changes to affect lives and really make a difference

At this point it is worth noting an example from The Good Shepherd Australia New Zealand, whose aim is to address the critical and contemporary issues facing women, girls and families. They have three key priorities: enable more women to recover from economic abuse, deliver quality job support services tailored to women and fund a small business kickstart and recovery program.

Good Shepherd provides No Interest Loans (NILS) to individuals and families on low incomes, enabling access to safe, fair and affordable credit. However, above this they have identified the following budget priorities – high-impact interventions that will make a real difference to women's lives. Good Shepherd sees all of these as important complements to NILS and note that NILS alone will not be enough to support the most vulnerable.

- Enabling more women to recover from economic abuse.
- Promoting and funding economic safety measures in the national plan.
- Establishing a national risk assessment and management framework
- Co-investing in crisis and social housing for women and children escaping violence.
- Using commonwealth rent assistance to build women's housing security.
- Delivering quality job support services tailored to women.
- Funding a small business kickstart and recovery program.
- Training skilled women for the net zero economy.
- Investing in childcare and parental leave to unlock work opportunities.
- Raising JobSeeker and Disability Support payment rates.

Interim recommendations for Fair4All Finance to consider

Based on lessons learned, there are 5 interim recommendations for Fair4All Finance to consider:

1. Consider how to rebalance lender volumes.
2. Consider how to diversify the customer base.
3. Consider whether loan principals can be increased to suit borrower need.
4. Assure yourselves that lenders are following full product and underwriting rules.
5. Consider what other changes (aside to coaching which has not worked) are needed to help these customers and put concerted effort into better lender referrals or handovers to support where it exists, and explore what else is needed (from a future policy change perspective).

Next steps

As this is an interim process evaluation, it provides some initial reflections on the 9 hypotheses being tested. In terms of next steps, further data to support the broader process and impact evaluation is currently being collected. The final report will include the findings of a second round of lender interviews, co-founder interviews, open banking data analysis, final survey results, and a full counterfactual impact analysis. We outline the key next steps to the right.

2024	Repeat of credit reporting agency analysis of NILS loans on borrowers.
	Continue surveying beneficiaries in receipt of loans on a monthly basis (until September 2024).
2025	Lender interviews (2nd round).
	Interviews with co-founders.
	Final survey with beneficiaries who have already taken part in the survey.
	Final impact and process evaluation report – covering full counterfactual analysis through quasi-experimental approaches, utilising ONS Wealth and Assets survey comparisons to test all 9 hypotheses.

The results of the impact evaluation will be monetised where possible to support a broader value-for-money assessment that is aligned with the principles of HM Treasury’s Green Book. Workshops will be run with key stakeholders on the findings and recommendations from the evaluation to support the dissemination and uptake of the results.

Setting the scene

02

How did we get to this point?

Date	Event
2015 & 2017	Good Shepherd microfinance visit UK to share their NILS experience with govt, financial services and civil society.
Aug 2017	Toynbee Hall visit Good Shepherd to research the Australian NILS model for a possible UK pilot.
Aug 2018	Toynbee Hall and StepChange develop initial pilot proposal for HMT.
Oct 2018	Autumn budget statement includes HMT commitment to carry out a feasibility study into a NILS.
Nov 2018	HMT appoint London Economics to carry out feasibility study – with sector-wide engagement.
Aug 2019	Feasibility study report delivered highlighting key questions to answer and/or test in a pilot.
June 2020	Toynbee Hall, Fair By Design and Fair4All Finance form partnership to work with HMT to design a pilot ready to launch when circumstances allow.
Mar 2021	HMT include provision for a NILS pilot in the March 2021 budget.
Sept 2021	Fair4All Finance is appointed by HMT to run the pilot and announce partnership with Toynbee Hall and Fair By Design.
Sept-Oct 2021	Fair4All Finance run market engagement.
Nov 2021	Fair4All Finance launch lender procurement.
Dec 2021	Fair4All Finance secures funding from JPMorgan for additional pilot site and financial coaching. Fair4All Finance and HMT secure lending capital contributions from devolved administrations.
June 2022	Fair4All Finance commissions credit risk partner to support with onboarding NILS lenders and compliance and responsible lending checks.
July 2022	Fair4All Finance commissions duplicate loan prevention tool learning from Covid fraud support.

Date	Event
Aug 2022	FCA advice on FOS fee exemption for credit unions. Fair4All Finance commissions Lightning Reach to build grant checker to be integrated with benefits calculators for use by lenders.
Nov 2022	Fair4All Finance commissions Behavioural Insights Team to support NILS lenders to optimise journeys and maximise benefit calculator use. Lender 2 and Lender 1 start delivering in full pilot.
Dec 2022	Fair4All Finance commissions debt free to deliver financial coaching funded by JP Morgan. Lender 4 starts delivering in full pilot.
Jan 2023	Lender 3 starts delivering in full pilot.
Apr 2023	Lender 5 starts delivering in full pilot.
June 2023	Financial coaching offer live.
July 2023	Lender 6 starts delivering in full pilot.
Aug-Sept 2023	Fair4All Finance launches separate subsidy scheme to appoint commercial lenders to increase scale of NILS pilot for cost of living crisis.
Sept 2023	Fair4All Finance workshop with lenders on what to change, improve and learn from Fair4All Finance referral partnership webinar.
Oct 2023	1st interim report delivered.
2024	Detailed understanding of unit cost per loan across each lender’s customer journey.
2024	Finalisation of internal audit work.
2024	Finalisation of international research into subsidy models relevant to the provision of affordable credit to contribute to longer term business case for NILS.

Introduction to the pilot evaluation

Fair4All Finance (F4AF) is delivering a No interest loan scheme pilot, the first of its scale across the UK, hoping to reach approximately 18,000 people over two years, with funding from HM Treasury (HMT), the devolved administrations, JP Morgan Chase Foundation (JPMCF) and Fair4All Finance. The role of the pilot is to test the delivery of a no interest loan product for people who are unable to currently access affordable and responsible credit products. The pilot will deliver three waves of lending over 24 months, with up to 18,000 loans in total. At the time of writing this report (February 2024), there were six lenders delivering No Interest Loan Scheme (NILS) loans. The eligibility criteria are relatively flexible with the only specific requirements being that the loan purpose meets agreed criteria that provides social or other defined benefit to the borrower and, at the time of applying, the applicant is otherwise excluded from existing credit products. These are small sum loans with a lending cap of £2,000. One lender had a loan cap of £500 until Oct 2023 when it was increased to £1,000.

The objectives of the pilot are to:

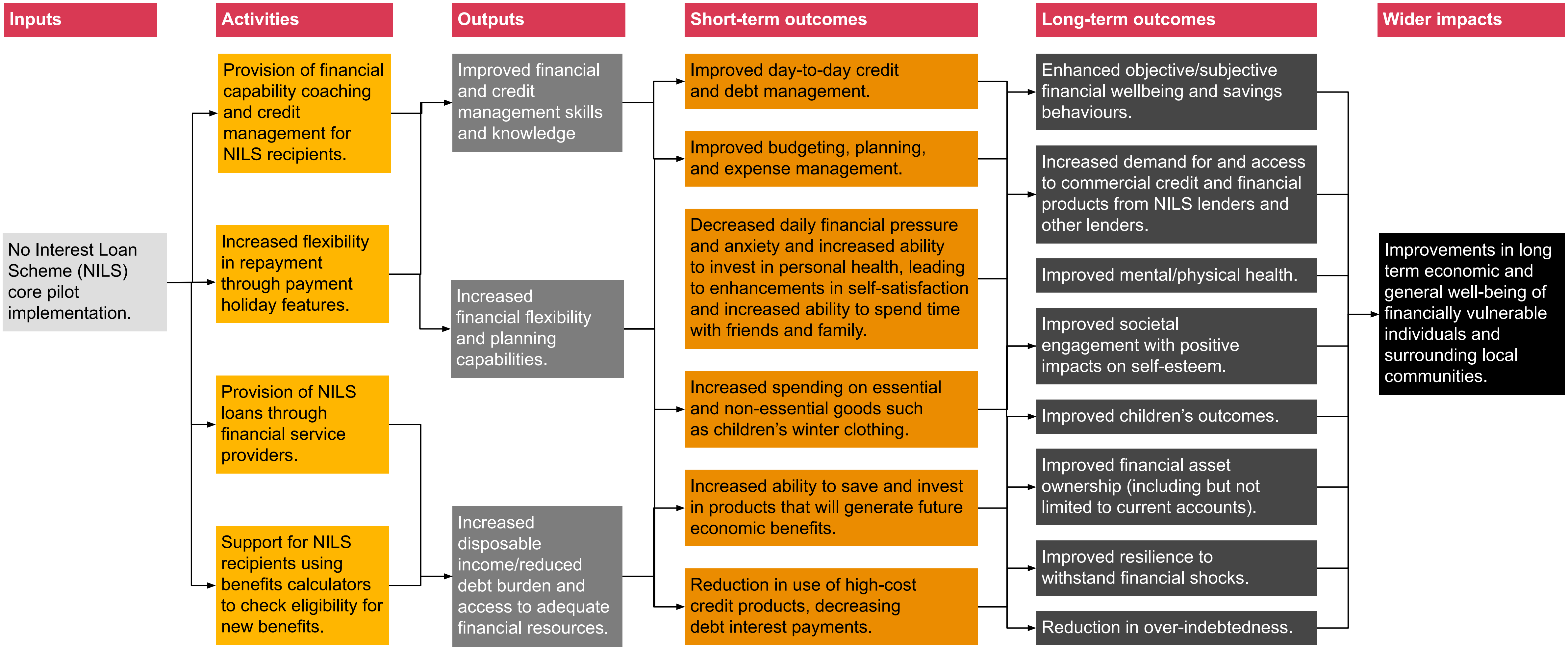
- Demonstrate whether there is a demand for NILS and demonstrate the propensity of borrowers to repay the loan.
- Identify and evidence the impact on borrowers who access NILS to evaluate and quantify any positive outcomes for beneficiaries and wider fiscal and societal benefits attributable to the scheme.
- Assess the long-term sustainability of delivering a permanent UK NILS by determining the cost of the scheme and its added value therefore the resources needed to make the scheme sustainable.

There are two elements to the evaluation – the impact evaluation and the process evaluation. This report is the second interim report and covers analysis of beneficiaries' feedback from the process survey questions and analysis of the lender data. There will be a final report which encompasses the full impact and process evaluations, including full counterfactual analysis through quasi-experimental approaches, utilising ONS Wealth and Assets survey comparisons to test all hypotheses.

This interim report will provide insight from the views of the beneficiaries, in terms of level of satisfaction, any problems encountered and whether opportunities exist for improvements as we progress through the pilot. The report will also look at the analysis of the beneficiaries who receive the loan, for example, demographics, profile, loan purpose, performance of loan etc.

There are also a number of hypotheses which have been generated by Fair4All Finance which will be validated/challenged as part of the full evaluation. These hypotheses have been detailed on Section 5 and this interim report provides some reflections on the 9 hypotheses being tested.

Theory of change (working ToC for reference)



Hypotheses to validate across both the impact and process evaluations

Hypothesis 1

Any positive customer outcomes and social impact associated with a customer having access to NILS outweigh the costs of the scheme.

Hypothesis 2

Delivery of NILS through regulated lenders with established referral networks, rather than directly through charities as in international NILS schemes, is effective to deliver this product and its associated benefits and wider regulatory change is not needed to enable NILS to be scaled and delivered.

Hypothesis 3

There is a demand for NILS unmet by existing credit or support offers, and a propensity of borrowers to repay.

Hypothesis 4

The two current routes into NILS (lender declines for commercial loans and referrals by related parties) are capable of reaching the borrowers most in need of a NILS solution without a publicly facing application process; we may in the future have a more public route in but that is not currently part of the pilot.

Hypothesis 5

The two eligibility paths into NILS are the right configuration to target NILS most impactfully to reach those underserved or excluded from credit for whom this loan product will make the most difference where those two paths are:

- Affordability
- Credit worthiness

Hypothesis 6

A blend of delivery models is needed for NILS to suit a spread of borrower circumstances where some borrowers are better served by a high touch, more intensive delivery model which involves bespoke interactions and/or in person engagement and others are appropriately served in a highly automated manner and an optimal configuration of NILS across these delivery model(s) is an efficient and effective way to build a sustainable, permanent solution.

Hypothesis 7

NILS customers may transition to longer term, interest paying customers after their NILS loan(s), and therefore have a commercial lifetime value for the lender but some ongoing subsidy is needed to scale NILS into the future, the extent of which can be validated through detailed examination of the unit cost models related to NILS delivery through open book accounting.

Hypothesis 8

The addition of wrap around support to borrowers including benefits calculators, referrals to alternative support e.g. grants, debt advice etc. and financial coaching alongside the no interest loan improves outcomes for both individuals and lenders.

Hypothesis 9

NILS also supports the aims and objectives of partners who refer individuals into NILS providers and the existing credit broking exemptions to enable referrals into appropriate lenders (which give some flexibility to housing associations and local authorities) are helpful to enable these parties to engage, but could be made more impactful if extended to charities with relevant remits.

This slide details the hypotheses set out at the beginning of the pilot. Given this is the interim report, we have provided an indicative validation of these hypotheses and this is detailed in Section 5.
NB. The research questions were designed to be unbiased to avoid leading participants.   These hypotheses form part of the analysis of responses.

Methodology for receiving feedback from beneficiaries

At the time of writing this report, **six lenders** have launched the No Interest Loan Scheme (NILS). These lenders are referred to as **Lender 1, Lender 2, Lender 3, Lender 4, Lender 5** and **Lender 6** throughout this report. We have employed the following methods to answer the process evaluation questions:

- **Survey with beneficiaries:** We are in the process of collecting evidence on the experiences and perspectives of beneficiaries through an online survey. This survey has been running since April 2023 and will continue until the end of the pilot on a monthly basis. Links to the survey have been sent to all beneficiaries of the NILS to date where email addresses have been provided by lenders. At the time of this report, we have had 308 completed surveys. On average, we have seen a 9% response rate which is typical for a survey of this nature and audience. This report uses the latest figures from the survey as of the end of December 2023.
- **Interviews with beneficiaries:** We have conducted 15 qualitative in-depth interviews with beneficiaries to explore their experiences of their NILS application, and understand the impact the loan has had on them. Interviews were conducted between 10th January and 1st February 2024.
- **Analysis of lender data:** Using the demographic data provided by each lender, we have been able to build an indicative profile of NILS beneficiaries by lender as of the end of December 2023.
- **Segmentation analysis:** Fair4All Finance's segmentation model was designed to help financial services providers further understand different groups of people, identify which they are serving well today and where there is the opportunity to serve different customer groups. The segmentation has focused explicitly on those in vulnerable financial circumstances, and has been driven by their financial needs, their product and debt behaviour, and their wider lifestyle. Working with Trajectory and CACI, six core segments have been identified that are under-served in the market today.

We have analysed the data across the six segments:

1. **Difficult debts**
   (reasonable income renters and homeowners with problem debt)
2. **Un(golden years)**
   (low but stable incomes, pre and post retirement)
3. **Squeezed and sliding**
   (getting by but increasingly squeezed, renters and homeowners)
4. **Unsteady starters**
   (flexible incomes and jobs, renters)
5. **Credit crisis families**
   (low income, social housing, cycle of credit and debt, mostly benefits dependant)
6. **Forgotten families**
   (lowest incomes, no savings, minimal access to products, mostly benefits dependant)

- **Equifax NILS consumer profiling:** Equifax UK Ltd has produced a report on behalf of NILS providers, profiling the beneficiaries granted a loan through interrogation of credit bureau information available at the point of the NILS application. We have referenced the findings on the credit profile, performance and credit demand of the beneficiaries in the 'lender/loan data' analysis section of this document.

Information to be taken into account when reading this report

The following information should be taken into account when reading this report:

- **This is the second interim report**, written using the data available as of the end of December 2023. The first interim report was written in October 2023. The date for the final report has not been agreed but will be 2025/2026.
- The state of play at the point of writing this report:
  - **Pilot launch date –** The pilot has been running since November 2022, preceded by a proof of concept stage.
  - **Lenders –** At the time of writing this report, six lenders had begun to process loans – referred to as Lender 1, Lender 2, Lender 3, Lender 4, Lender 5 and Lender 6.
  - **Delivery models –** There are a range of delivery models being used across the six lenders and across the three core activities – the initial application, the back office processing and the reporting for Fair4All Finance (for the evaluation of the pilot scheme). This is illustrated by the table to the right.
  - **Loan volumes** – 3,494 loans had been issued at the point of writing this report (end of December 2023). The breakdown by lender is included in the table.
  - **Lender data –** All six lenders have provided some/all of the demographic data requested as part of the evaluation reporting requirements.
  - **Beneficiaries survey responses and qualitative interviews –** At the time of writing the report, the beneficiaries survey had been running since 24th April 2023 and we had received 308 responses as of the end of December 2023. The breakdown by lender is as follows: Lender 1: 28 responses; Lender 2: 41 responses; Lender 3: 24 responses; Lender 4: 2 responses; Lender 5: 43 responses and Lender 6: 170 responses. 15x qualitative interviews were conducted with beneficiaries across a range of lenders (4x Lender 6, 3x Lender 1, 3x Lender 5, 2x Lender 3, 2x Lender 2, 1x Lender 4) and loan performance (performing vs in arrears vs default).

Lender	Loan volumes	NILS launch date	Initial application	Back office processing	Reporting for Fair4All Finance
Lender 1	245	Jan 2022; Full pilot: Nov 2022	Online	Manual	Manual
Lender 2	195	Nov 2022	Online/ offline	Manual	Manual
Lender 3	225	Jan 2023	Online/ offline	Mix	Manual
Lender 4	26	Dec 2022	Online	Automated	Automated (previously manual)
Lender 5	624	April 2023	Online	Automated	Automated (previously manual)
Lender 6	2,179	July 2023	Online	Automated	Automated

Figure 1: Lender delivery model across the three core activities

Recap of findings from 1st interim report (early process evaluation)

Successes and processes working well:

- Involvement of industry stakeholders.
- Process of securing treasury (HMT) approvals.
- Pilot set up (e.g. proof of concept, CRA collaboration, provision of lending capital at no cost and working closely with lenders).
- Lender processes (e.g. the use of both relationship-based and transactional internal processing approaches, support for lenders from the behavioural insights team).
- Applicants' experiences are positive.

Five key emerging themes:

- Actual loan volumes were lower than forecast due to a number of factors (technology platforms and manual underwriting processes of credit unions, delays due to an unrelated technology upgrade for one lender, low/reduced levels of applications for some lenders, dropout rates in application processes and possible over-cautious lending criteria for one lender).
- Actual cost of processing a loan appeared to be higher than expected.
- Resourcing required for the pilot were higher than expected for some lenders.
- Online and offline application routes are necessary to reach those in need.
- Some early indication the loan values are not enough to meet applicants' needs.

Learnings about the different delivery models:

- Initial application – Importance in having a mix of lenders who offer online and/or offline application routes.
- Back office processing – Importance in having lenders with relationship-based approaches and those with transactional approaches in order to scale it up and reach a wider audience.
- Reporting to Fair4All Finance – Manual versus automated approach in meeting Fair4All Finance's reporting requirements.

Opportunities for improvements:

- Consider some manual interrogation of open banking data.
- Improve categorisation of open banking data.
- Speed of receiving loan – speeding up process of Lender 5's loan (physical prepaid card).
- Apply a minimum technology platform standard – although this may discount many lenders being able to bid.
- Encouraging application completion and reducing dropout rates.
- Further work required to develop referral partnerships.
- Better holiday/sickness cover planning.
- Build on Fair4All Finance's existing work to continue to raise awareness of community finance providers.
- Revised approach to lender data sharing to ensure consistency, completeness and efficiencies as we progress through the evaluation.
- Support for lenders in evaluating the cost of processing a NILS loan
- Simplify bid process and provide direction to bid writing support.

Limitations for this interim report

Feedback from beneficiaries

- Sample sizes are small for some of the lenders. For three of the lenders the number of beneficiaries who completed the survey are small (Lender 1: 28 responses; Lender 3: 24 responses and Lender 4: 2 responses) which makes analysis at the lender level difficult, however we have included comparisons by lender throughout the report.
- Levels of satisfaction among beneficiaries is high and number of problems experienced is very low. This makes it difficult to conduct any further analysis on the profile of beneficiaries who are dissatisfied, or who are experiencing problems as the base sizes of these particular groups are very low.

Lender data

While the lenders report on the beneficiary's credit rating at the time of applying for the loan, each lender uses different credit rating bands. This makes it difficult to conduct any overall analysis on the data based on credit rating. This may be something we can review as the pilot progresses, if consensus is attained on the credit rating bands used.

This interim report

- This is an interim report, accurate at the time of writing. The processes implemented by each lender are continually evolving, building on learnings to date. As a result, some of the findings in this report may already have been addressed.
- In addition, please note that the evaluation of the pilot at this stage is based on interim data as of the end of December 2023. Full data will be available for the final report.

Key themes: beneficiary feedback and lender data

03

Key themes emerging

A mix in delivery models means NILS is reaching a broad spectrum of those in need

3,494

loans issued with a loan value of £2.066 million across 6 lenders with an average value of £591, versus a forecast of 6,347 loans.

Lender 5 and Lender 6 represent 80% of loans issued (2,803 loans with an average loan value of £556).

- **Automated approaches** (e.g. from Lender 5 and Lender 6) have been useful in **reaching beneficiaries at mass**.
- The **more relationship-based approach** to lending is also required to **meet the needs of some borrowers** (e.g. those with particularly low financial literacy or confidence in completing application on their own), given the complexity of circumstances they may face.
- **Qualitative feedback** has highlighted that relationship-based approaches are effective at helping to **build trust, reassure** and 'put a name to a face'.

Despite the challenging backgrounds of most NILS customers, this has not had a significantly detrimental impact on loan performance

78%

of loans are 'performing', with 4% already paid off.

16%

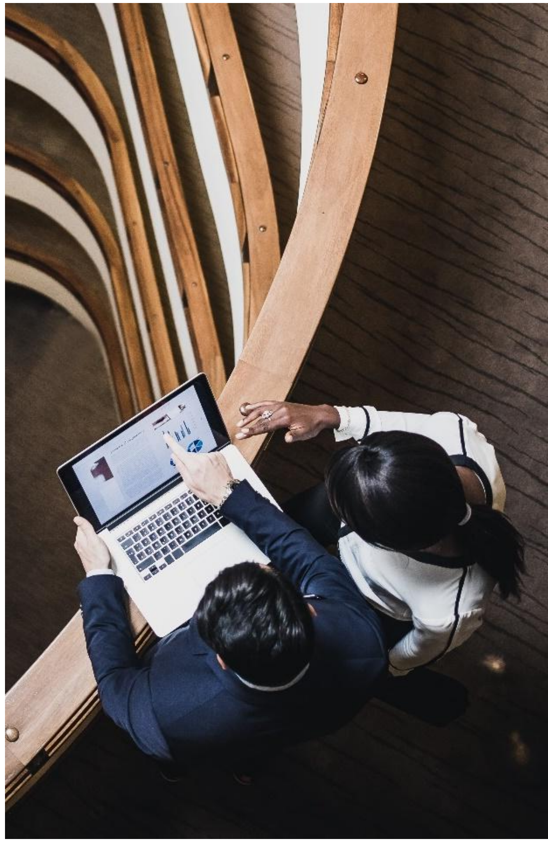
of loans are in arrears/ default, and 1% have been written off.

89%

reported having no problems repaying their loan.

- The **Equifax consumer profiling report*** on the NILS customer showed that half the NILS consumers had **defaulted repayments on an account in the 12 months prior** to their NILS application.
- High NILS performance therefore highlights a positive theme about beneficiaries' ability to repay, and is also positive in the **context of rising default rates** across the industry since 2022**. In addition, there has been a large number of NILS loans where the bad debt guarantee has enabled changes to lenders' credit risk tolerance.

*Note: Equifax UK Ltd has produced a report on behalf of NILS providers, profiling the beneficiaries granted a loan. **Bank of England Credit Conditions Survey



Key themes emerging (continued)

The Pilot appears to be reaching the most vulnerable borrowers

51%

of loans are reaching the most vulnerable borrowers ('credit crisis families' and 'forgotten families')*.

- **Credit crisis families** represent **28% of NILS beneficiaries** (this group generally have low income, social housing, cycle of credit debt and are most likely on benefits).
- **Forgotten families** represent **23% of NILS beneficiaries** (this group generally have the lowest incomes, no savings, minimal access to products and most likely be dependent on benefits).

*Analysis is based on Fair4All Finance's segmentation model

The Pilot has delivered high quality services, with beneficiaries describing their loan as a 'lifeline'

91%

are satisfied with the loan application process (80% are 'very satisfied').

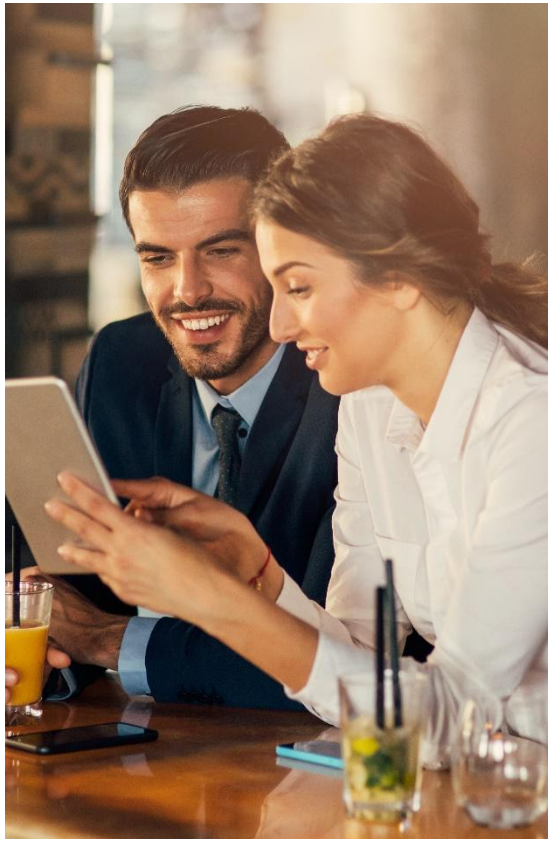
94%

are satisfied with the overall loan application to loan repayment process (77% are 'very satisfied').

96%

are satisfied with their lender (81% are 'very satisfied').

- Qualitative feedback has highlighted **positive financial and emotional benefits** for borrowers, who valued being given a second chance.
- Particularly for those **facing shorter term financial difficulty**, qualitative feedback showed that access to the loan meant getting the financial boost when they needed it.
- There is some **indication of genuine positive long term impact** (e.g. getting finances back on track, alleviating stress, avoiding high risk/cost credit).



Opportunities for improvement

1. More balanced lender representation may be required

Lender 6 makes up 62% of all loans issued by volume (total Lender 6 loan volume: 2,179).

42% of Lender 6's beneficiaries fall into the two most vulnerable segments, vs 66% for other lenders combined.

Only 11% of beneficiaries overall belong to minority ethnic groups (vs 17.6% of the GB population)*.

- Lender 6 are reaching **fewer 'vulnerable beneficiaries' vs other lenders**, and have a **largely different profile** more widely (e.g. higher employment, higher average take home pay).
- It's therefore important to consider the **impact Lender 6's prominence may be having** on overall pilot outcomes.
- More **balanced lender representation may be needed to improve on this further** to ensure the loans are reaching those most in need.
- There is also opportunity to **improve on the diversity of beneficiaries** moving forward (11% of borrowers belong to minority ethnic groups vs 17.6% of the GB population*).

2. Monitor and further understand reasons for non-performance

While overall loan health is strong (78%), loan performance differs by lender.

A number of factors can potentially help to explain differences in lender loan performance (e.g. customer profile, levels of vulnerability, lender specific technical issues, and loan maturity).

- While overall loan performance is, at this stage, stronger than expected, it'll be important to **monitor and further understand underlying reasons for non-performance** moving forwards.
- For example, qualitative beneficiary feedback has told us that, in more isolated cases, **the loan may not be having the desired effect**, e.g. falling further into arrears/debt, loans not being used as intended or not being the most appropriate option – particularly those in the most 'vulnerable' segments and with longer term challenges around debt.

3. Lenders to tighten processes and ensure adherence to lending criteria

98% of beneficiaries did not make use of payment holidays.

Some lenders are offering informal flexible payment options which may not have been reported.

Lenders may explore how they can ensure payment holiday offers are recorded to ensure accurate reporting and protect borrowers' credit files.

- While we are aware of potential gaps in reporting around payment holidays, lenders may consider how to **promote this benefit further** to improve awareness and offer flexibility to those struggling.
- Lenders may also consider how they can **follow up more effectively** with beneficiaries falling behind (e.g. gentle 'nudging' emails). Some beneficiaries indicated that it can be **easy to go 'unnoticed'** by the lender after a certain period of time.
- Given the challenges some beneficiaries are facing around repayment, further **auditing/ monitoring of applications may also be needed** to ensure that loans are reaching those most in need and that lending rules are being adhered to.

*From Census data

Opportunities for improvement (continued)

4. Providing/promoting a wider suite of solutions

28% of beneficiaries surveyed stated that the loan was not enough to cover what they needed funds for.

Of the 87 beneficiaries who stated that the loan was not enough, 48 were in the 'credit crisis families' or 'forgotten families' segment.

58% claim to not have been offered non-financial products.

A quarter claimed they were offered money coaching with debt free advice, and 23% were offered the benefits/grant calculator.

64% state that they have never sought money advice in the past.

- It has to be considered whether the loan amount, particularly for the most vulnerable, **will fully meet their needs** and what other support measures could be implemented **other than just providing a larger loan amount**.
- The lenders confirmed **they do signpost beneficiaries** to other organisations for non-financial advice. For example, debt free advice money coaching, gambling awareness/support, housing services, counselling, or community organisations.
- There appears to be **low awareness or understanding of other features** such as money coaching, with only a small proportion of beneficiaries claiming to have been offered them.
- Even when aware, qualitative feedback highlighted that **there are barriers to uptake** (e.g. concerns around benefits/relevance, poor past experiences, or missed lender comms).
- Lenders may consider **when and how to offer non-financial products** in the application journey to help boost awareness and understanding of relevance/benefits.
- Consideration should also be given to **offering other types of support**, for example training, careers guidance, mental health support/therapy, legal advice, etc. to really get to the root of the problems some of these beneficiaries face and to help support them.

International evidence suggests that lending and advice also needs to be accompanied by a range of different policy changes to affect lives and really make a difference

At this point it is worth noting an example from **the Good Shepherd Australia New Zealand**, whose aim is to address the critical and contemporary issues facing women, girls and families. They have three key priorities: enable more women to recover from economic abuse, deliver quality job support services tailored to women and fund a small business kickstart and recovery program. Good Shepherd provides No Interest Loans (NILS) to individuals and families on low incomes, enabling access to safe, fair and affordable credit. However, above this they have identified the following budget priorities – high-impact interventions that will make a real difference to women's lives. Good Shepherd see all of these as important complements to NILS and note that NILS alone will not be enough to support the most vulnerable.

- Enabling more women to recover from economic abuse.
- Promoting and funding economic safety measures in the national plan.
- Establishing a national Risk Assessment and Management Framework.
- Co-investing in crisis and social housing for women and children escaping violence.
- Using commonwealth rent assistance to build women's housing security.
- Delivering quality job support services tailored to women.
- Funding a small business kickstart and recovery program.
- Training skilled women for the net zero economy.
- Investing in childcare and parental leave to unlock work opportunities.
- Raising JobSeeker and Disability Support payment rates.

Areas for exploration as the evaluation progresses

Given we are only part way through the pilot, as we continue the number of beneficiary loans will increase, the number of completed surveys will increase and the quality of the lender data provided will continue to improve. In addition we will be conducting a second round of lender interviews.

As we move into the final phases of the evaluation, we will monitor the following areas and provide a more comprehensive review in the final report.

01

Lender volumes and differentiation:

There is very little differentiation in beneficiary feedback at the lender level. 80% of the loans issued come from Lender 5 and Lender 6 – as more lenders come on board (hopefully diversifying the customer base more and rebalancing lender volumes) and as more loans are issued across all lenders, we will have more robust data to explore any differences that may emerge.

02

Loan principals:

28% stated that the loan was not enough to cover what they needed. A comparison of data in this report with the data for the final report is required to better understand whether this is this purely a case of individuals always wanting more or whether there is an opportunity to adjust the rules to allow those that can afford it to borrow more e.g. for debt consolidation.

03

Lenders following full product and underwriting rules:

78% of the loans are performing and 4% are already paid off. However, there is variance in loan performance across lenders. With more data and the second round of lender interviews, we will look to better understand underlying reasons for differences in loan performance across lenders, and what can be done to improve loan performance moving forwards.

04

Support for beneficiaries:

Many beneficiaries claim not to have been offered any non-financial products and those that have are not taking it up. What changes can be made to impact on awareness and take up of non-financial products as the pilot continues? And what other changes (aside from coaching) are needed to help these customers e.g. better lending referrals or handovers

05

Drivers to dissatisfaction:

Satisfaction among beneficiaries is high but there is a small minority who are not satisfied. To determine what is driving this dissatisfaction, we need a greater number of dissatisfied beneficiaries to conduct the analysis and suggest how can this be addressed.

06

Analysis on credit ratings of beneficiaries:

At the time of writing the report, there was a lack of consensus on the usage of credit rating bands so no analysis has been conducted at this level. We would look to include this in the final report assuming this data becomes available.

04

Lender data analysis and research findings from beneficiary feedback

Methodology summary

The process

- Each month, beneficiaries who received the loan in the previous month, are emailed to participate in an online survey about their experiences of taking out the loan.
- A list of loan beneficiaries is provided to PwC each month by Fair4All Finance (previously provided by the lenders themselves).
- During the survey, beneficiaries were asked if they would like to participate in a qualitative depth interview.

Note: due to rounding, not all reporting percentages may equal 100%.

Number of loans issued
3,494 loans issued.

Number of depth interviews
15x qualitative depth interviews with beneficiaries completed.

Number of completed surveys
308 surveys completed.

Fieldwork period
Fieldwork started in April 2023 and continues on a monthly basis.

Interview period
Interviewing started on 10th January 2024, and all interviews were completed by the 1st February 2024

Lenders included
6 lenders included

Lender	Volume loans issued (3,494)	Value loans issued (£2.066m)	Completed surveys (308)	Survey response rate (9%)
Lender 6	2,179 (62%)	£1,245,900 (60%)	170	8%
Lender 5	624 (18%)	£312,000 (15%)	43	7%
Lender 1	245 (7%)	£124,009 (6%)	28	11%
Lender 3	225 (6%)	£208,916 (10%)	24	11%
Lender 2	195 (6%)	£137,501 (7%)	41	21%
Lender 4	26 (1%)	£37,600 (2%)	2	8%

4a Lender data analysis

Beneficiary profiles – There is opportunity to improve on the diversity of beneficiaries moving forward (11% of borrowers belong to ethnic minority groups vs 17.6% of GB population*)

58% are single

23% are married/civil partnership
9% live with partner
4% are divorced/separated
5% 'other'

51% has no dependants

21% have 1 dependant
18% have 2 dependants
6% have 3 dependants
3% have 4 or more dependants

55% are female

44% are male

86% are White

5% are Black/African/Caribbean/Black British
3% are Asian/Asian British
2% are mixed/multiple ethnic groups
3% are unknown/prefer not to say

% single	
Lender 6	52%
Other lenders	69%

% have no dependants	
Lender 6	61%
Other lenders	36%

% female	
Lender 6	46%
Other lenders	70%

% White	
Lender 6	85%
Other lenders	89%

Note: 'Other lenders' include Lenders 1-5
*From 2021 UK Census data
(**Base:** All sample 3,494)

Beneficiary profiles: 98% of beneficiaries appear not to have made use of payment holidays, although informal flexibility may have been offered by lenders*

40% rent from a housing association/local authority.

35% privately rent.

12% stay with friends or family without paying rent.

8% are owner/occupiers.

4% ‘other’/unknown.

% rent from a HA/LA	
Lender 6	30%
Other lenders	57%

98% appear not to have made use of the payment holiday (as of end December 2023).

2% ‘officially’ made use of the payment holiday.

* Reporting on this feature has not been consistent from lenders and some informal payment holidays/payment schedule changes may have taken place by some lenders without being included in reporting figures to CRAs.

% not made use of payment holiday	
Lender 6	97%
Other lenders	98%

18% have caring responsibilities.

78% do not having caring responsibilities.

4% are unknown/prefer not to say.

% have caring responsibilities	
Lender 6	11%
Other lenders	29%

45% have an ‘other’ type of qualification (diploma/ degree equivalent).

26% have a degree or above.

10% have no degree qualification.

18% are unknown.

% ‘other’ qualification	
Lender 6	45%
Other lenders	45%

Note: ‘Other lenders’ include Lenders 1-5
(**Base:** All sample 3,494)

Beneficiary profiles: Further indication that Lender 6 beneficiaries have fewer vulnerability indicators than other lenders

12%
have a disability

82% have no disability.
5% are unknown/prefer not to say.

% have a disability

Lender 6	5%
Other lenders	25%

83%
are employed

9% are not employed.
3% are permanently sick/disabled.
3% look after home/family.
2% ‘other’/unknown.

% employed

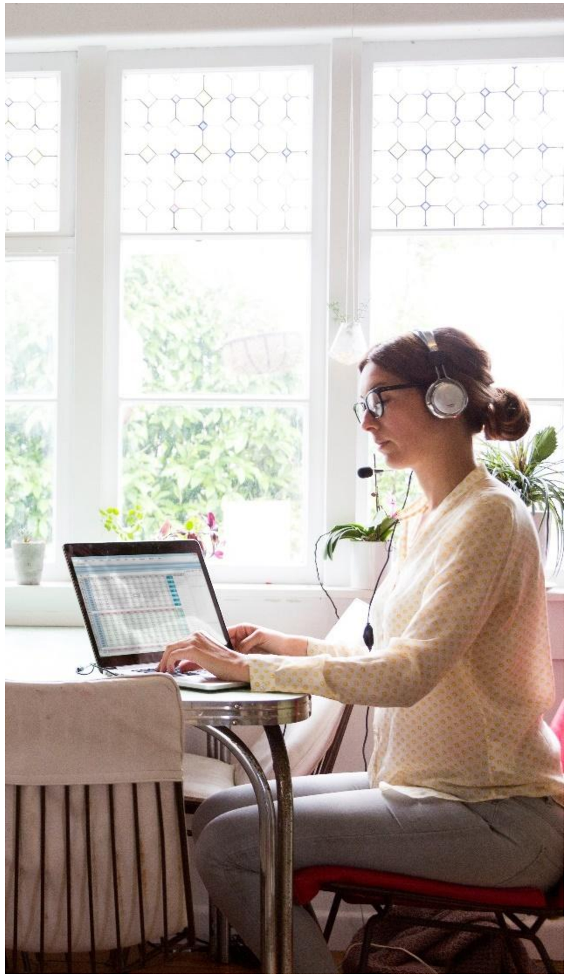
Lender 6	100%
Other lenders	55%

43%
are in receipt of benefits

56% do not receive benefits.
1% unknown.

% receive benefits

Lender 6	22%
Other lenders	78%



Note: ‘Other lenders’ include Lenders 1-5
(**Base:** All sample 3,494)

Beneficiary profiles: Higher take home income is being driven by Lender 6 beneficiaries

£2,195
take home monthly income (mean)

Lender 6	£2,375
Other lenders	£1,617

Note: ‘Other lenders’ include Lenders 1-4.
No data for Lender 5

£1,998
take home monthly income (median)

Lender 6	£2,102
Other lenders	£1,593

Note: ‘Other lenders’ include Lenders 1-4.
No data for Lender 5

£591
average loan amount (median loan is £500)

Lender 6	£572
Other lenders	£624

Note: Median loan amount is £500 for all lenders. ‘Other lenders’ include Lenders 1-5

£193
average interest saved

Lender 6	£202
Other lenders	£176

Note: Calculated based on the interest on the lender’s loan they would most likely have provided to the beneficiary

£493
average outstanding principal

Lender 6	£508
Other lenders	£468

Note: ‘Other lenders’ include Lenders 1-5

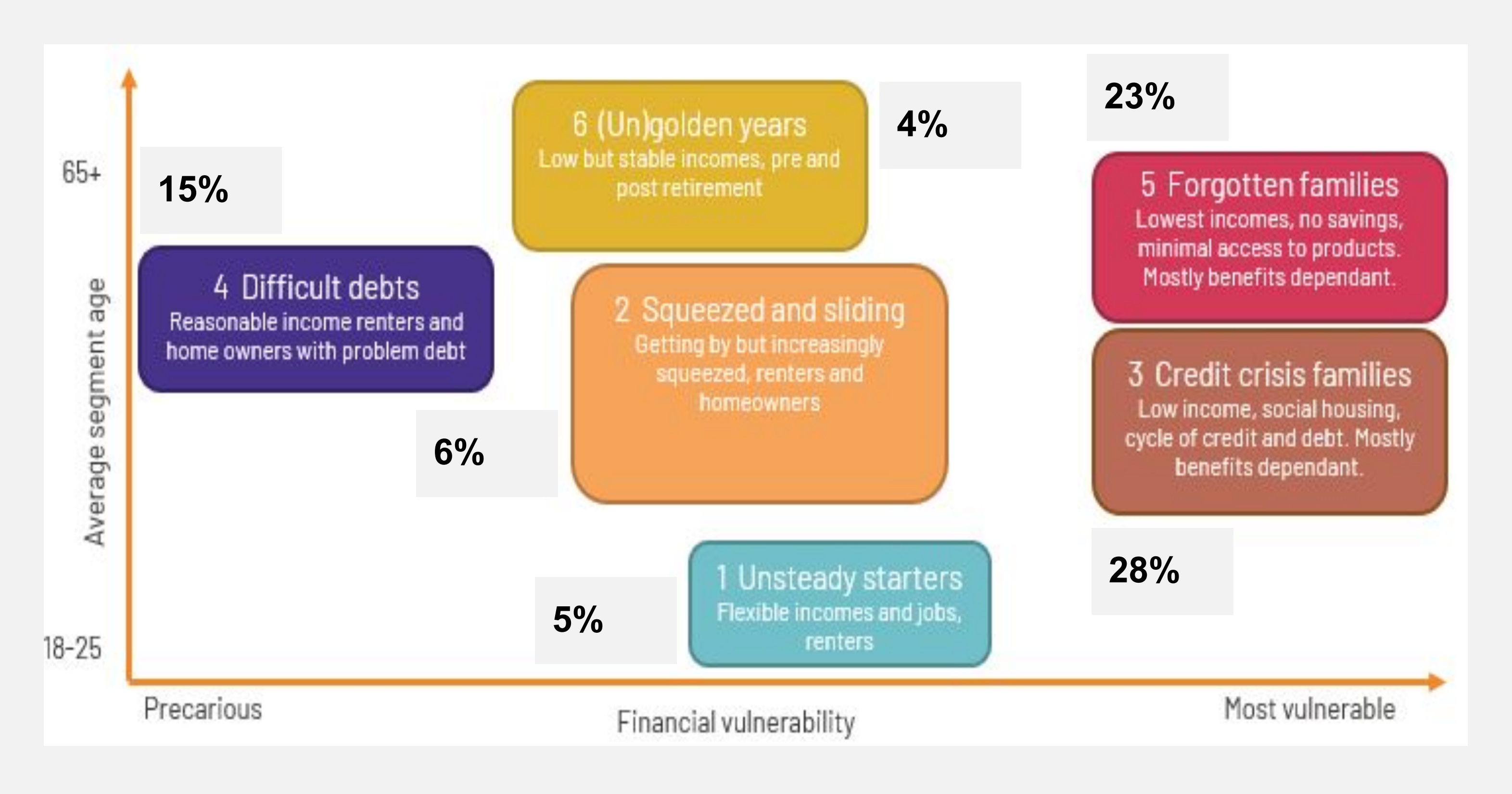
(**Base**: All sample 3,494)

Segmentation analysis shows that over half of the loans were among the most vulnerable customer segments ('credit crisis' and 'forgotten families')

Segmentation analysis

Fair4All Finance's segmentation model helps financial services providers further understand different groups of people, identify which they are serving well today and where there is the opportunity to serve different customer groups. This could not only help build the financial resilience of different groups, but also help organisations to diversify their customer base.

Customer segmentation is about understanding groups of people and categorising them into groups based on similar needs and behaviours. The segmentation has focused explicitly on those in vulnerable financial circumstances, and has been driven by their financial needs, their product and debt behaviour, and their wider lifestyle. Working with Trajectory and CACI, six core segments have been identified that are under-served in the market today.



(**Base:** All sample 3,494)

Note: 20% were outside of the above segments or had no match. Of this 20%, 92% are employed and 85% have loans that are performing or fully repaid. This is largely influenced by the fact that 77% of these are Lender 6 customers.)

Looking at the segmentation analysis by lender, Lender 6's beneficiaries have a lower proportion in the most vulnerable 'credit crisis families' category versus other lenders

		Total (3,494)	Lender 6 (2,179)	Other lenders** (1,315)
Precarious	**Difficult debts** Reasonable income renters and homeowners with problem debt.	15%	17%	11%
Financial vulnerability	**(Un)golden years** Low but stable incomes, pre and post retirement.	4%	4%	3%
	Squeezed and sliding Getting by but increasingly squeezed, renters and homeowners.	6%	7%	5%
	Unsteady starters Flexible incomes and jobs, renters.	5%	6%	3%
Most vulnerable	**Credit crisis families** Low income, social housing, cycle of credit and debt. Mostly benefits dependant.	28%	20%	42%
	Forgotten families Lowest incomes, no savings, minimal access to products. Mostly benefits dependent.	23%	22%	24%

****Note:** 'Other lenders' include Lenders 1-5
(**Base**: All sample 3,494)

Overall, the profile of Lender 6’s beneficiaries shows that they appear less ‘vulnerable’ in nature vs other lenders

	Total (3,494)	Lender 6 (2,179)	Other lenders** (1,315)
Have no disability	82%	90%	70%
Have no caring responsibilities	78%	86%	67%
Have a degree or above	26%	32%	17%
Be employed	83%	100%	55%
Not in receipt of benefits	56%	78%	19%
Credit crisis families*	28%	20%	42%

Lender 6 makes up a significant proportion of total loans, and one lender can have a significant impact on a small pilot of this nature. While the pilot has been successful at targeting the most vulnerable at an overall level (51% of all beneficiaries fall under the most vulnerable segments), more balanced representation across all lenders may be needed to improve on this further to ensure the loans are reaching those most in need.

***Note:** based on Fair4All Finance’s segmentation model ‘credit crisis families’ are one of the most vulnerable segments
****Note:** ‘Other lenders’ include Lenders 1-5
(**Base:** All sample 3,494)

Almost eight in ten loans are 'performing', indicating that the pilot is working – however there are differences between lenders

Loan performance overall

78%
of the loans are 'performing'

14% are in arrears
4% are fully repaid
2% are in default
1% written off
1% had missed payments, but back on track

Loan performance varies by lender

It is worth noting that some lenders have stronger levels of loan performance than others. Reasons for higher loan performance are likely linked to customer profile and lower levels of vulnerability. Reasons for weaker loan performance are likely a result of some lender specific technical issues (resulting in missed payments) and higher levels of loan maturity for some lenders (allowing more time for bad debt to materialise compared to lenders with less mature loan books).

Qualitative feedback indicates that there is some desire from beneficiaries to be 'chased' but in a supportive way to keep them on track and make good on their payments. Lenders may also consider how to boost awareness of payment holidays to give flexibility to those who may be struggling (although we are aware that some of the lenders offer informal flexible payment options that may not have been formally reported). Feedback also highlighted that where repayments are set up to come out on the same day as wages/benefits, this seems to help avoid defaults.

(**Base**: All sample 3,494)

Qualitative feedback indicates that some beneficiaries may need a ‘nudge’ and more proactive lender support to help keep them on track

Each lender has their own missed payments/collections policy. Where this was more ‘relaxed’ or where technical issues meant missed payments weren’t followed up, beneficiaries desired more proactivity to help them make the payments.

	Case study 1	Case study 2
Segment	Credit crisis families	Forgotten families
Reasons for missed payments	**In arrears:** Money for repayments was not used as intended (used for gambling instead). Only had one text after each missed payment, felt it was too easy to ignore and not bother.	**Defaulted:** Poor money management, mental health issues and difficulty staying on top of things. Felt desperate at the time and felt he applied for more than he needed. Was sent some chaser letters by lender but felt these were too easy to ignore.
Solution	Wanted more proactive conversation with the lender. Wanted a 'support call' after 2nd missed payment to discuss situation, amend plan, provide support/solutions to avoid getting further into debt. Also suggested friendly call 1 week before to check money in account and to discuss if there is likely to be a problem before the payment is missed.	Lender to provide an ‘olive branch’ – doesn’t want to feel chased or hassled or made to feel guilty, but approachable and friendly lender who can offer genuine support.
	“It was too easy to stick my head in the sand. They don’t bother me, so I don’t bother them”.	“It’s been a long time since I’ve heard anything. I wouldn’t mind it if they got in touch with me again or called me…not chasing… that’s not a nice feeling to be hounded”.

Looking at the 621 ‘not performing’ loans the beneficiaries are more likely to be of a ‘vulnerable’ nature

The beneficiaries are more likely to….

- Be single 64% (versus 58%).
- Have dependants 60% (versus 48%).
- Be female 63% (versus 55%).
- Rent from a housing association or local authority 55% (versus 40%).
- Have a disability 22% (versus 12%).
- Have caring responsibilities 23% (versus 18%).
- Have no degree qualification 13% (versus 10%).
- Not be employed 40% (versus 17%).
  - 19% unemployed; 10% permanently sick/disabled; 8% looking after home/family; 2% temporarily sick/disabled.
- Be in receipt of benefits 73% (versus 43%).
- Be declined from an interest bearing loan due to ‘affordability’ 12% (versus 7%) or ‘affordability and lending risk’ 57% (versus 19%).
- Be ‘credit crisis families’ (one of the most vulnerable segments) based on Fair4All Finance’s segmentation model 40% (versus 28%). It is worth noting that a proportion of the ‘credit crisis families’ segment are loans from the lender who had technical issues and was unable to ‘chase’ payments for a period of time, so this may have, in part, impacted loan performance.

(**Base:** Not performing loans 621; ‘not performing loans’ defined as those in arrears, in default or written off)

The top two reasons for the loan are for household items and to pay bills

Household items	40%
Bills	19%
Financial emergency	8%
Debt/debt consolidation	7%
Essential travel related costs	3%
White goods	3%
Car/car repairs	3%
Housing/rent deposit	2%

'Household items' includes	
Household appliances	11%
New essential furnishings/ white goods for unfurnished home	5%
Repairing or replacing essential items	7%
Replacement of essential furnishings/ white goods	4%
Essential home repair costs	4%
Household equipment	4%
Furniture	3%
Other household items	2%

'Other' responses include (15%)	
Relationship breakup	1%
Funeral costs	1%
Respite/break	1%
Baby essentials	1%
Education and employment	1%
Home improvements	1%
Childcare costs	1%
Healthcare costs	1%
Technology	1%
Clothes	1%
Other	1%
No reason provided	2%

(**Base:** All sample 3,494)

The most common loan is £500 or less with a term of 12-18 months, representing 75% of the loans offered

Product type	£500 or less	£501-£1,000	More than £1,000
Less than 12 months	6%	1%	0%
12-18 months	75%	12%	1%
More than 18 months	1%	2%	2%

Lender 6's loans fall under 2 products:

- Loan £500 or less (12-18 months term) 85%.
- Loan £501-£1000 (12-18 months term) 15%.

(**Base:** All sample 3,494)

Irrespective of loan amount, loans with a 12-18 month term appear to have a higher level of performance particularly in comparison to loans with a shorter term

Loan performance by product type % of 'performing loans' (performing or fully repaid)	£500 or less	£501-£1,000	More than £1,000
Less than 12 months	60%	76%	-
12-18 months	81%	94%	86%
More than 18 months	70%	63%	76%

While extending the loan term can lower the repayments for beneficiaries, the data suggests that this may have a detrimental impact on loan performance

(**Base:** All sample 3,494)

The Equifax consumer profiling report* shows that the NILS beneficiary is likely to have high credit card usage, have high levels of default in the 12 months prior to application and have high demand for credit

Credit profile

Higher credit card usage in the 6 months prior to NILS application

- 29% utilising more than 90% of their total available credit card limit.
- A third carrying a persistent credit card debt.

Credit performance

High levels of default in the 12 months prior to NILS application

- Half had defaulted repayments on an account in the 12 months prior.
- 74% had some form of negative payment status (such as arrears, defaults or court judgments).

Credit demand

High demand for credit

- 59% had engaged in credit searches in the 6 months prior to NILS application.
- 2 in 5 had opened an account in the 3 months prior to NILS application.

***Note:** All lenders are reporting to all three credit reference agencies (CRAs).
Equifax UK Ltd has produced a report on behalf of NILS providers, profiling the beneficiaries granted a loan.

4b

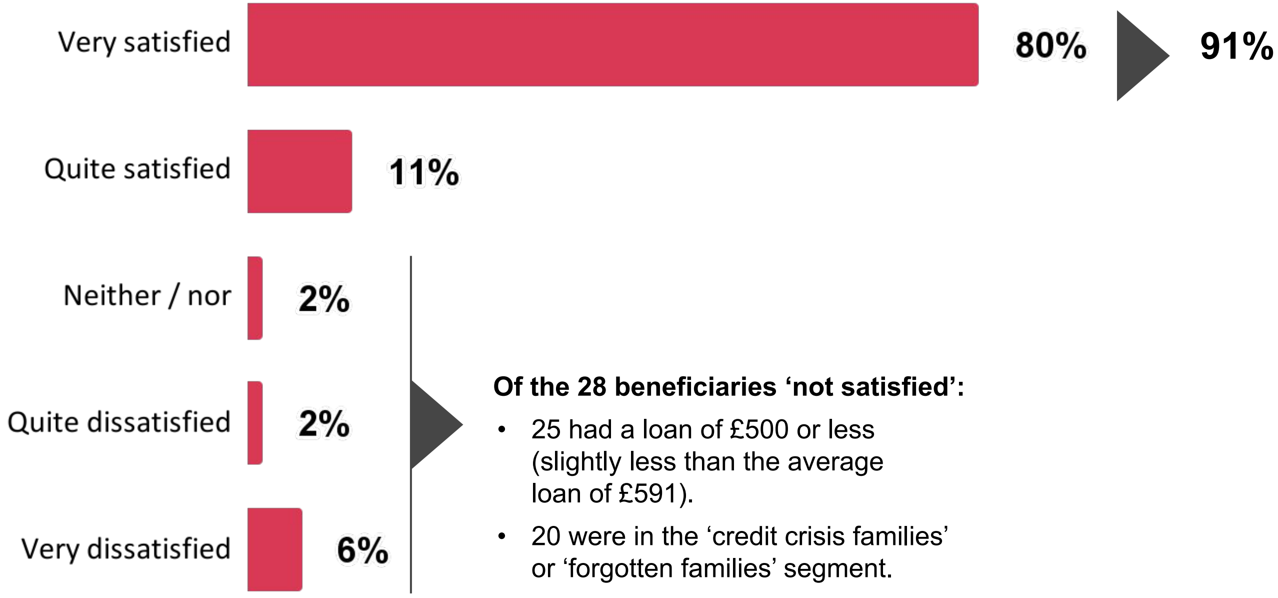
Research findings from beneficiary feedback

4b i.

Experience of the no interest loan scheme

Over nine in ten are satisfied with the application process for the loan and levels of satisfaction are similar across all lenders

Q2.2 Thinking about the no interest loan you have recently received, how satisfied were you with the application process for the loan?



Of the 28 beneficiaries 'not satisfied':

- 25 had a loan of £500 or less (slightly less than the average loan of £591).
- 20 were in the 'credit crisis families' or 'forgotten families' segment.

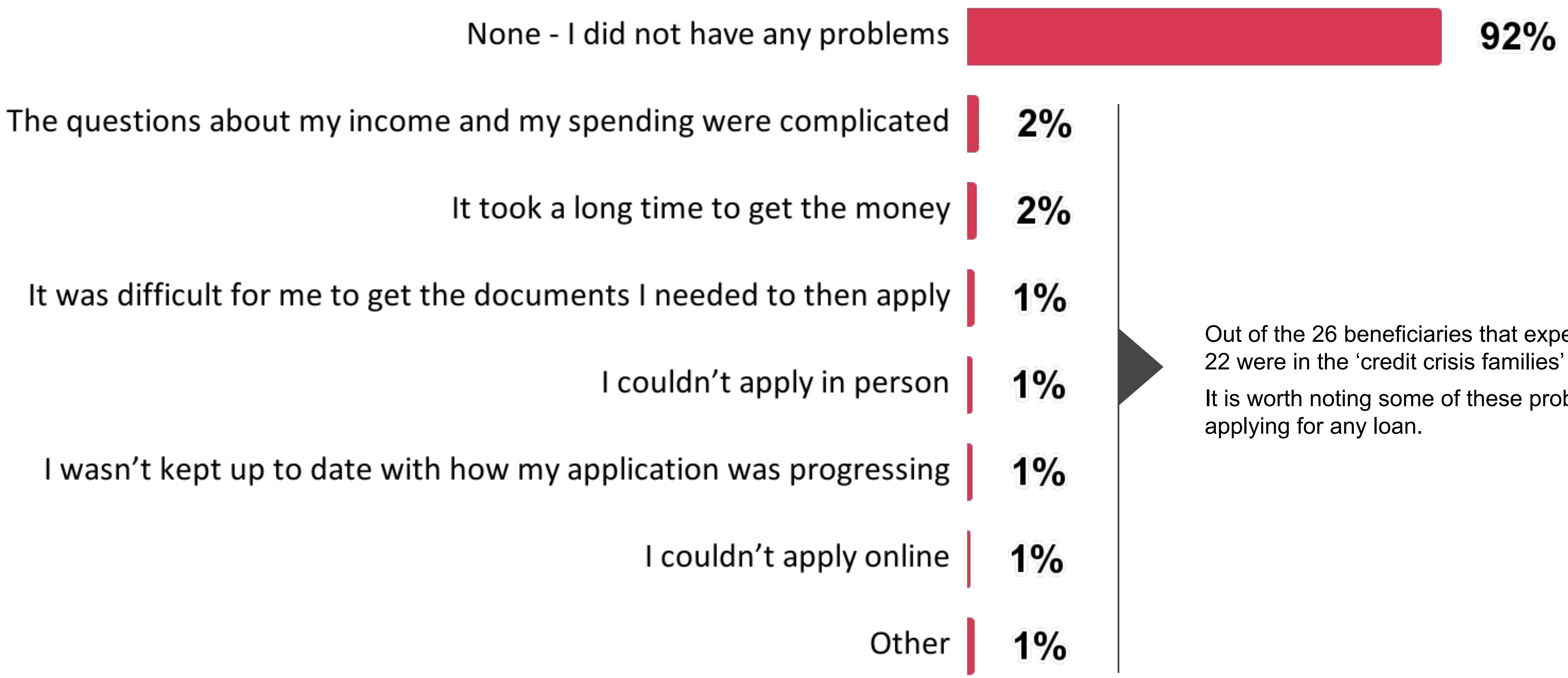
Qualitative has shown that this positivity is in part due to their relief/gratefulness for getting the loan. Beneficiaries also commented on a quick and seamless process, which often exceeded expectations (e.g. speed of receiving payment, level of automation)

Lender	% very/quite satisfied
Lender 1	93%
Lender 2	93%
Lender 3	92%
Lender 4	All 2 respondents satisfied
Lender 5	91%
Lender 6	90%

(**Base:** All respondents 308)

Over nine in ten experienced no problems applying for the loan

Q2.3 Did you experience any problems when you applied for the no interest loan?



Higher among:

- The employed (94%)
- Lender 6 (96%)

Out of the 26 beneficiaries that experienced problems when applying for the loan, 22 were in the 'credit crisis families' or 'forgotten families' segment.

It is worth noting some of these problems may have been experienced when applying for any loan.

(**Base:** All respondents 308)

Looking at the 26 beneficiaries who experienced problems when applying for the loan, suggestions for improvements included a quicker process

Q2.4 If you were able to, how would you improve the application process for the loan?

Most of the time these kind of loans are for emergencies, it should be a quicker process”

(Lender 1 beneficiary; April 2023).

Quicker”

(Lender 1 beneficiary; Dec 2023).

“Arrange a phone call to go through the application process”

(Lender 6 beneficiary; Nov 2023).

Quicker”

(Lender 2 beneficiary; May 2023).

Online account being available”

(Lender 5 beneficiary; Aug 2023).

Quicker process”

(Lender 2 beneficiary; May 2023).

“Be able to apply online”

(Lender 3 beneficiary; Aug 2023).

Qualitative feedback indicates that where speed is an issue, this is often due to the more personal/ manual approach used by credit unions. However, there is an argument that this is a necessary consequence of ensuring they reach those most in need. Some beneficiaries did cite isolated issues around the process (e.g. delays with receiving credit agreement from lender) – however this didn’t lead to any negative impact /consequences for the beneficiary.

Note: not all respondents provided a response to this question.

Other suggestions for improvement included easier access to online accounts and flexibility in repayment options

Q2.4 If you were able to, how would you improve the application process for the loan?

“An **online account** to view account status and repayments/repayment dates”
(Lender 5 beneficiary; Aug 2023).

“Easier to link to **online account**”
(Lender 5 beneficiary; Nov 2023).

“Allow the person to **simply state their emergency** in a list format, instead of being made to explain in detail which is embarrassing and makes you feel uncomfortable even though the loan will help. It’s a very exposing process which I don’t feel is necessary. Perhaps, this was just my experience but I’d suggest keeping the why’s for the emergency out of the conversation”
(Lender 1 beneficiary; Sept 2023).

“**Online portal** with balance control”
(Lender 5 beneficiary; Sept 2023).

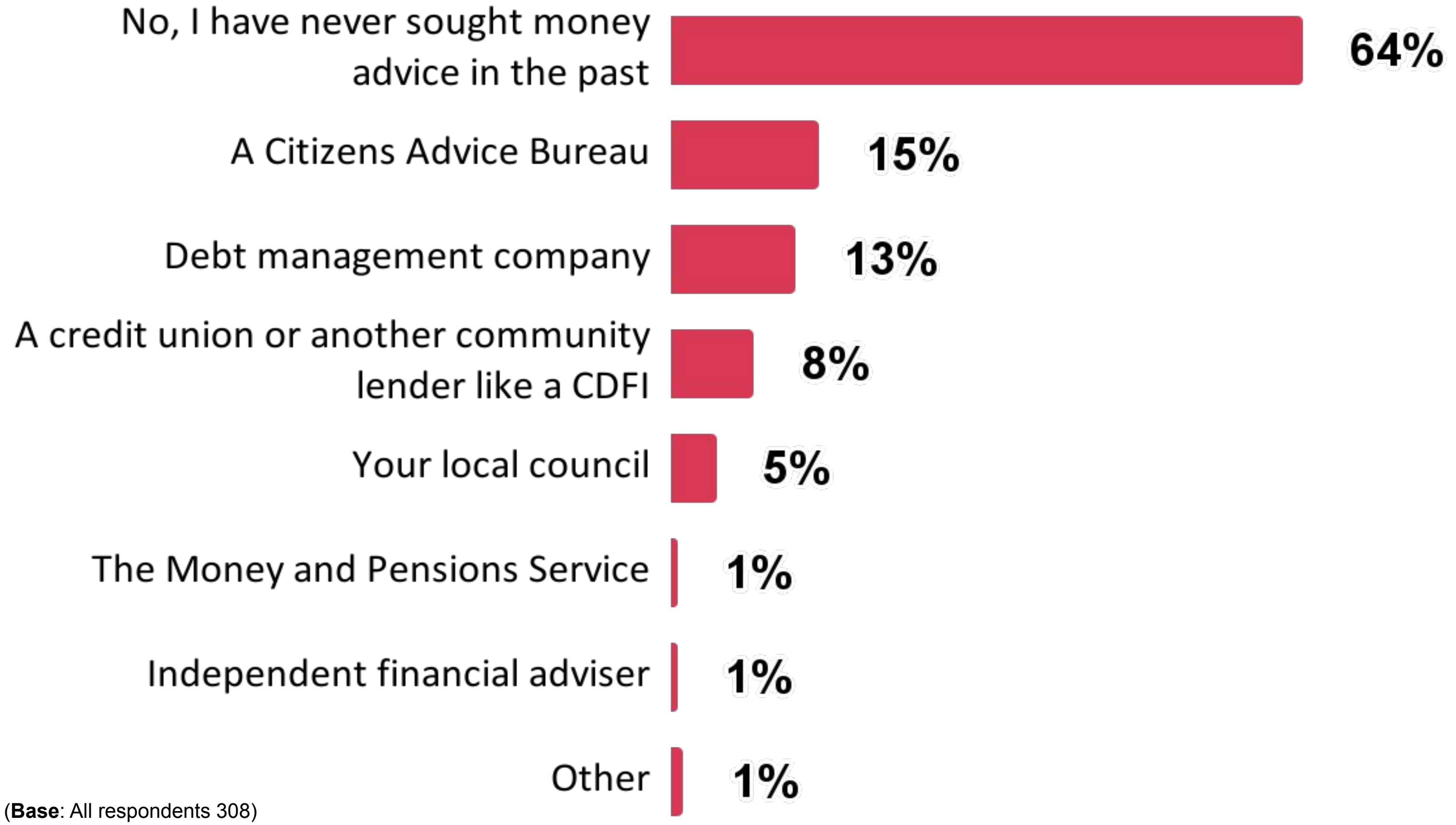
“Online account being available”
(Lender 5 beneficiary; Aug 2023).

“Being able to access how much is left **online**”
(Lender 5 beneficiary; Nov 2023).

“Give more **repayment options** other than direct debit”
(Lender 2 beneficiary; May 2023).

Almost two thirds have never sought money advice in the past but, for those that do, the Citizens Advice Bureau and debt management companies are the two most popular organisations to seek advice from

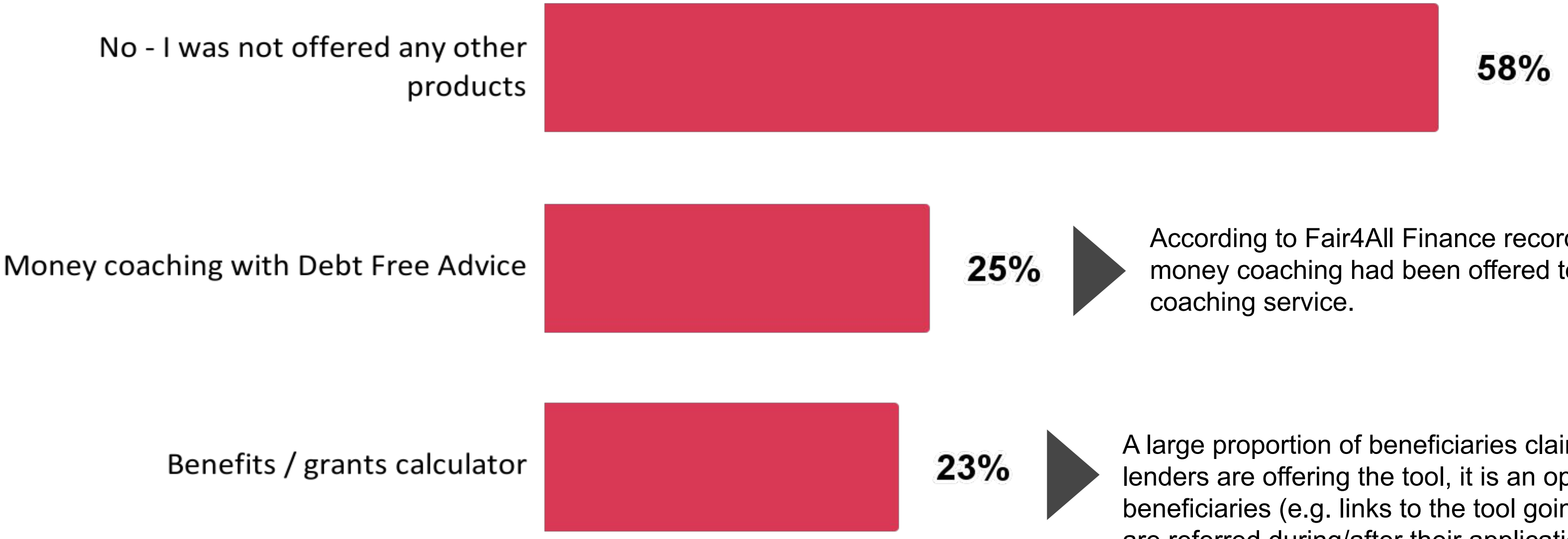
Q2.1 Other than money coaching provided through Debt Free Advice (if you have received it), have you spoken to anyone from any organisation or firm that offers either advice on debts, money worries or financial planning or money management?



(**Base**: All respondents 308)

Almost six in ten claim not to have been offered any non-financial products – positioning and communication of these products will be key moving forwards

Q2.5 Were you offered any of the non-financial products listed below in addition to your loan? Q2.5a Did you make use of the product?



Higher among Lender 5 (81%) and Lender 3 (72%).

According to Fair4All Finance records, at the time of writing this report, all lenders indicated that money coaching had been offered to all customers, yet no one had made use of the money coaching service.

A large proportion of beneficiaries claim they weren't offered the benefits/ grant calculator. While all lenders are offering the tool, it is an optional part of the customer journey, and may be missed by beneficiaries (e.g. links to the tool going unnoticed either during the onboarding process or when they are referred during/after their application).

Qualitatively, the barriers to take up appear to be previous (less positive) experience of debt advice, perceived benefit of this service (when they have many other problems to deal with), optimism bias (my situation will get better) but also potentially the process (with beneficiaries missing email communication from lenders). To overcome potential barriers, lenders may consider when and how to offer non-financial products in the application journey to help boost awareness and understanding of relevance/benefits. Consideration should also be given to offering other types of support, for example training, careers guidance, mental health support/therapy, legal advice etc. to really get to the root of the problems some of these beneficiaries face and to help support them.

(**Base:** All respondents 255 – those who completed survey from June 2023 as products not available before then).

Qualitative feedback highlights the barriers to coaching and other types of support facing beneficiaries

	Case study 1	Case study 2	Case study 3
Segment	Outside of segments	Forgotten families	Difficult Debts
Reasons for missed payments	Feels ‘embarrassed’ or ‘ashamed’ talking to a stranger about their financial situation in detail. Also felt that they had control over their finances generally and knew how to get out of current rut – didn’t see coaching as something relevant to them.	Accepting of issues with their finances, but feels this is ‘the way things are’ – doesn’t feel like a financial coach would ever truly understand what it’s like to be in their shoes or their financial situation.	Put off by past experiences – has accessed advice before (StepChange), however felt it didn’t make enough difference on their finances. Also had a negative experience with debt management agency – deters them from seeking external support more generally.
Solution	More reassurance around feelings of confidentiality or anonymity – would need to know how coaching could be relevant to them, even if difficulties are more ‘short term.	Stronger understanding of relevance – but other means of support or signposting outside of finances could be beneficial (e.g. mental health support or careers guidance).	Stronger upselling of the benefits of this coaching (e.g. free, tailored 1-2-1 coaching).
	“ It’s a bit embarrassing having to talk about your finances with a stranger”	“ The people that do this coaching will never be in my situation… they’ll never understand what it’s like”	“ They [debt advice agency] were quite aggressive and I went into it all a bit naively…it’s put me off a bit”

Just over seven in ten (72%) stated the loan was enough to cover what they needed

Q2.6 Was the loan enough to cover what you needed it for? Q2.6b Did you get the balance of funds from another source?

28% **said the loan was not enough to cover what they needed it for**

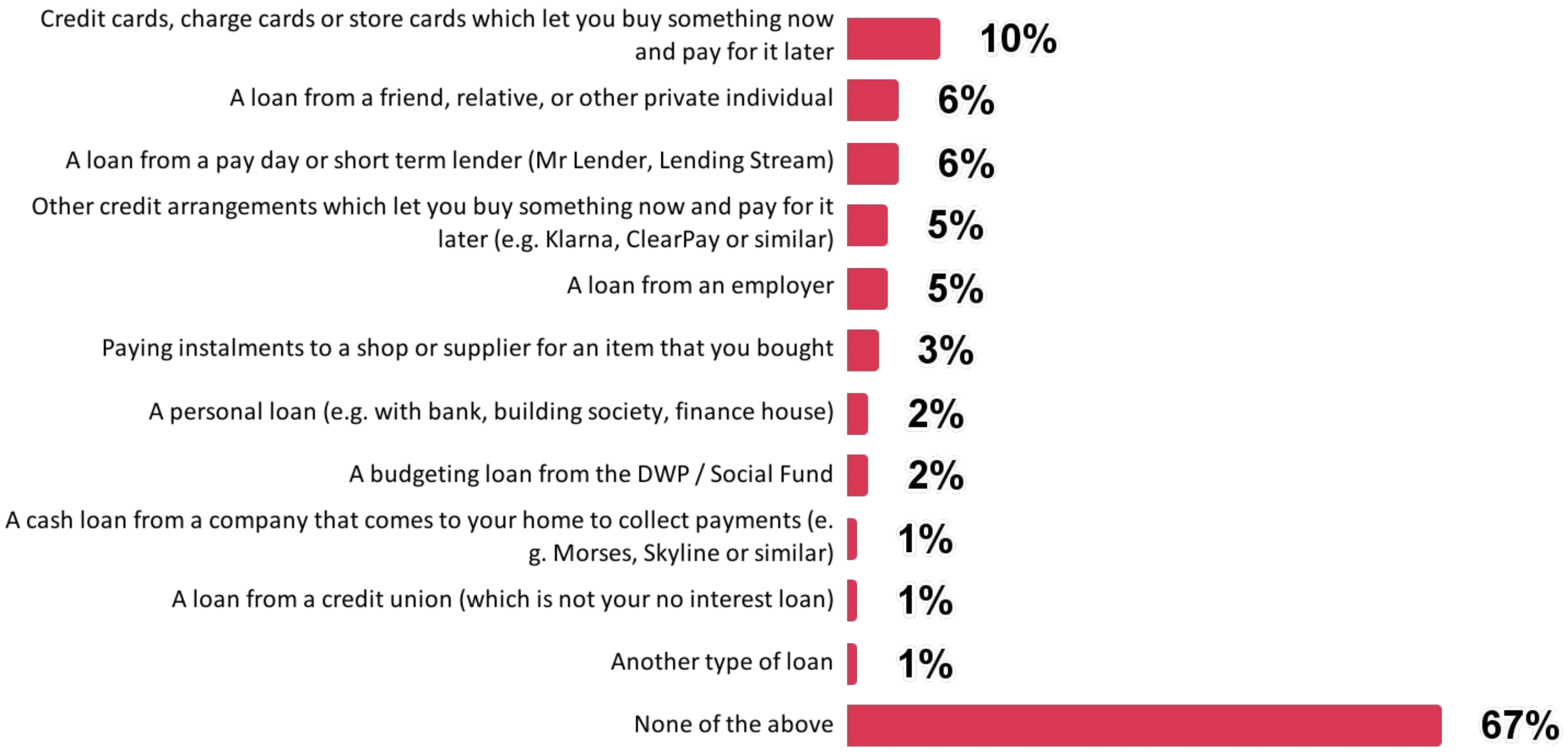
Higher among those not in receipt of benefits (36%)

(Base: All respondents 308)

Of the 87 beneficiaries who stated the loan was not enough:

- 70 had a loan of £500 or less (slightly less than the average loan of £591)
- 48 were in the most vulnerable 'credit crisis families' or 'forgotten families' segments
- For one lender, even when its loan cap was increased during the pilot, there were still the same number of beneficiaries unhappy with the loan amount, which implies that the issue was related to affordability challenges rather than the loan cap.

Of the 87 beneficiaries who stated the loan was not enough, they got the balance of funds from….



(**Base:** All respondents who stated the loan was not enough 87)

Among those who felt the loan wasn't enough, some would have liked to know about higher credit options available to them (although affordability may have removed this as an option)

Q2.4 If you were able to, how would you improve the application process for the loan?

Looking at the 87 beneficiaries that stated that the loan was not enough, 48 were in the 'credit crisis families' or 'forgotten families' segment (the most vulnerable groups of the segmentation model).

When asked what would improve the loan application process, some beneficiaries mentioned that they were unaware of the higher levels of credit available and would have liked to have known about the amount of credit they could have been offered from the start.

However, it is worth noting that in many cases, beneficiaries would not have been able to borrow more due to affordability concerns.

" A **larger sum** should be available to those who can afford the repayments. Also, top up loans would be great as stuff happens during the year also."

(Lender 2 beneficiary, May 2023)

" They should be able to change the amount applied for after the initial application. I never realised there was a **higher credit line** available until it was too late to change the amount."

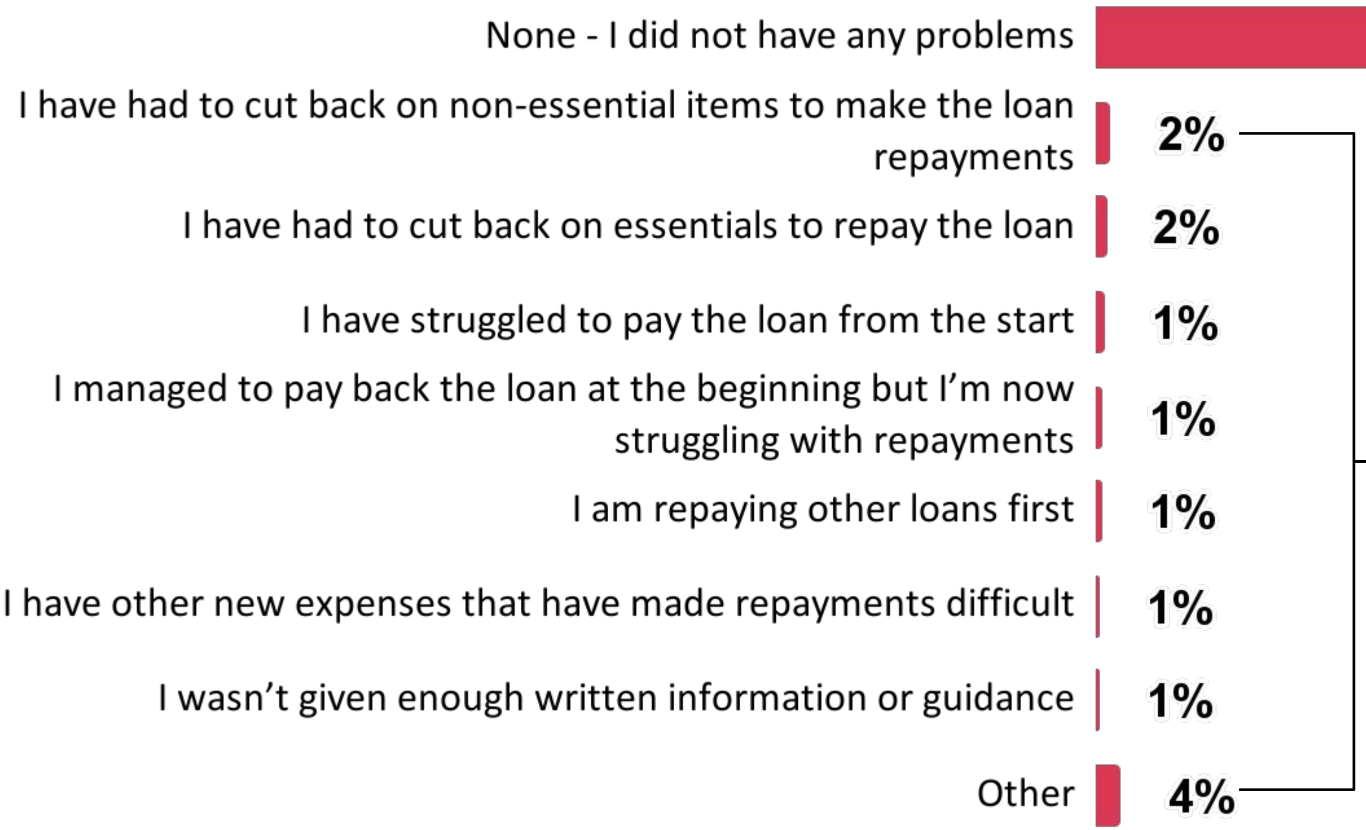
(Lender 3 beneficiary, April 2023)

" Tell me the **amount of credit** I could have got at the start of the loan in case I could have got more."

(Lender 6 beneficiary, Nov 2023)

Nine in ten experienced no problems in repaying the loan so far

Q2.7 Did you experience any problems repaying the loan?



Higher among the employed (91%)

Of the 34 beneficiaries that experienced problems repaying the loan.

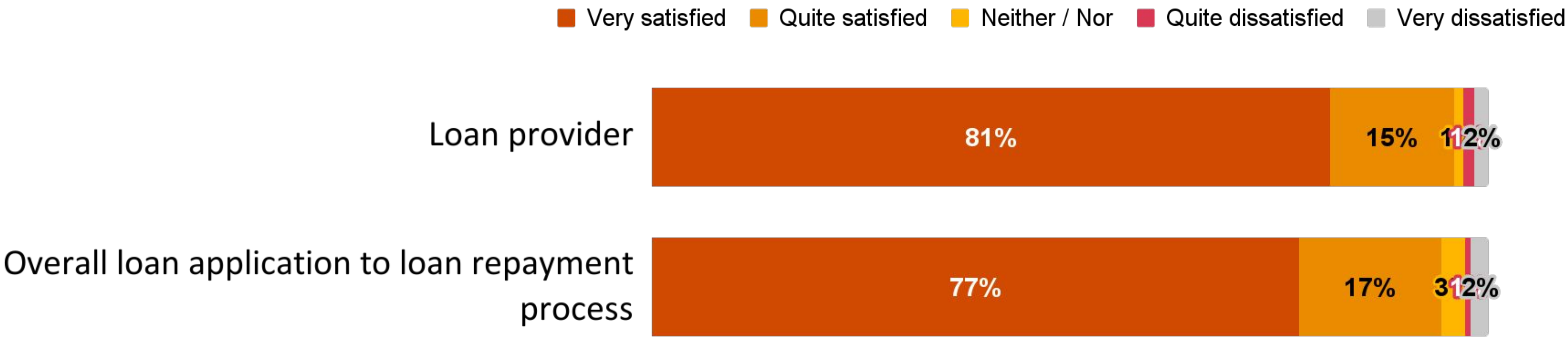
- Only 9 were in default, in arrears or written off
- 22 were in the 'credit crisis families' or 'forgotten families' segment

Qualitative feedback further emphasised positive repayment experiences – repayment levels were felt to be at the right amount, with many citing how payments coming out on payday meant you 'didn't even notice that it's gone'.

(**Base:** All respondents 308 – regardless of whether they had fully repaid their loan or were still in the process of repaying)

Over nine in ten are satisfied with the loan provider and process, indicating that the pilot process is working well for beneficiaries

Q2.8 How satisfied or dissatisfied are you with a. The loan provider and b. the process you went through from loan application to loan repayment overall?



	Lender 6	Lender 5	Lender 1	Lender 3	Lender 2	Lender 4
% very/quite satisfied with loan provider	96%	95%	93%	96%	98%	All 2 respondents satisfied
% very/quite satisfied with loan application to repayment process	96%	95%	86%	92%	93%	1 ‘very satisfied’, 1 ‘neither/nor’

(**Base:** All respondents 308)

Beneficiaries are very grateful to have received a NILS loan and view it as a lifeline while also paying no interest

Q9.1 Is there anything else you would like to add regarding your experience of the no interest loans scheme?

"Absolutely amazing service and help with getting this loan and greatest of help and understanding to my situation. It couldn't of been more straightforward for me"

"I think there should be more loans given. If people can pay back, no interest is very helpful. When you have no one to ask or can't get a loan or help. It helps my anxiety"

"They are doing a good thing, it helps people that need it most"

"Absolutely fantastic and I would be happy to make use of it again! It is an incredible facility that can really help in a time of need. The fact it's zero interest is incredible"

"I'm so glad it's no interest. Knowing I have nothing to pay back on top makes me smile. Knowing someone wants to help but doesn't expect anything back on top is rare. So thank you!"

"They have been heaven sent, they are my unexpected heroes"

"I can't express how much this helped me as in the last 8 years. I have lost my mum and dad and 2 brothers. This affected me really bad as I've had to find the funds to cremate them. Without this loan it wouldn't have been possible. It was a real lifesaver"

"The loan helped me out when I was in financial trouble. The fact that it had no interest was fantastic"

"No interest is a really good thing for people with poor credit history. It saves you a lot of money"

Qualitative feedback indicates that the NILS is having a genuine positive impact on beneficiaries

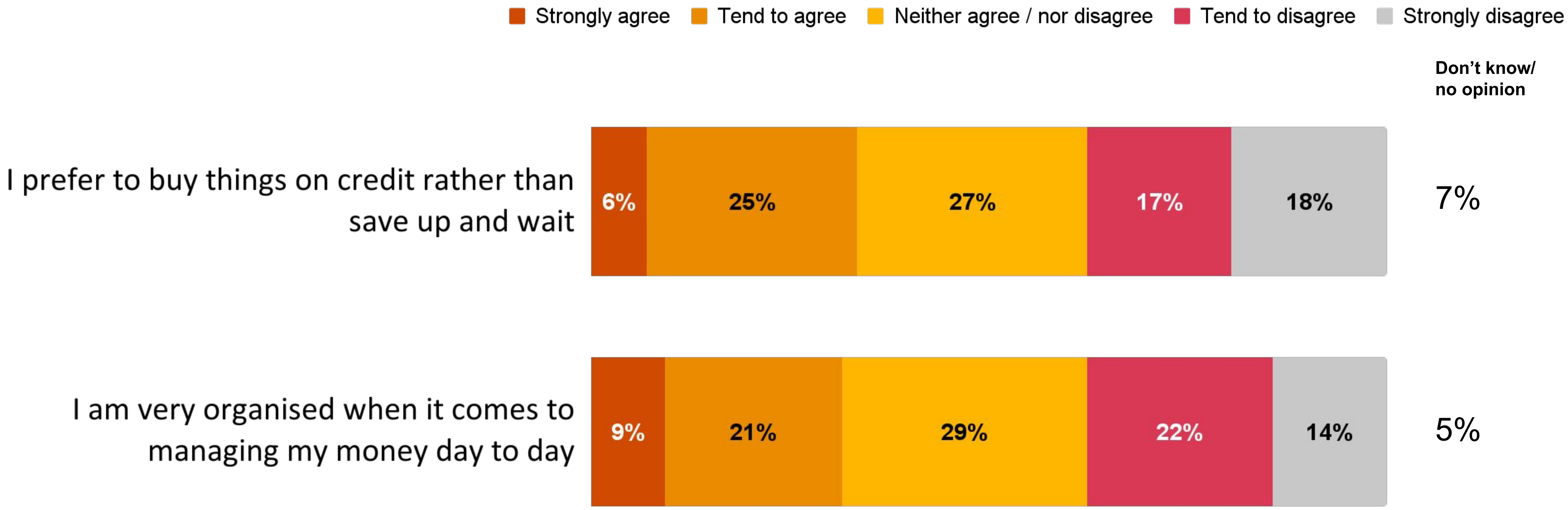
	Case study 1	Case study 2	Case study 3	Case study 4
Segment	Credit Crisis Families	Outside of segments	Credit Crisis Families	Difficult Debts
Examples of positive impact	Allowed them to 'get their life back on track', pay off backlog of payments owed on Buy Now Pay Later schemes. Loan has helped to genuinely change outlook on life and finances, and is feeling much more optimistic now about the future. Has maintained savings following condition set by credit union.	Lender and loan was there for them in time of emergency (unexpected significant medical bills and funeral costs for parent). Only other option was a high interest and high risk payday loan – NILS meant they avoided this and could feel more secure for their future.	Used the loan payment to take a mental health break. Is a full time carer for disabled parent – needed this time away to recharge and improve wellbeing. Loan had the desired impact and is in a better place now for it.	Lender was there for them at a time when no one else was (past credit issues made it difficult for them to obtain credit) – feels grateful to be given this chance (used loan payments to pay for child costs), and is optimistic about building their credit score for the future.
	“It’s been great…I’ve managed to stop all that online shopping…and putting money away means that now I’ve got my own money in my pocket”	“I don’t know what I would have done otherwise…it would have had to have been some really high interest loan…the financial pay back later down the line would have been massive”	“I really needed it…I needed the time to get away and the loan helped me to do that”	“I can’t normally get a loan like this…and we don’t have any savings to fall back on. It’s been a real lifeline”

4b ii.

Wellbeing and health

Around three in ten prefer to buy things on credit rather than saving up for them and around two thirds do not feel organised when it comes to managing money

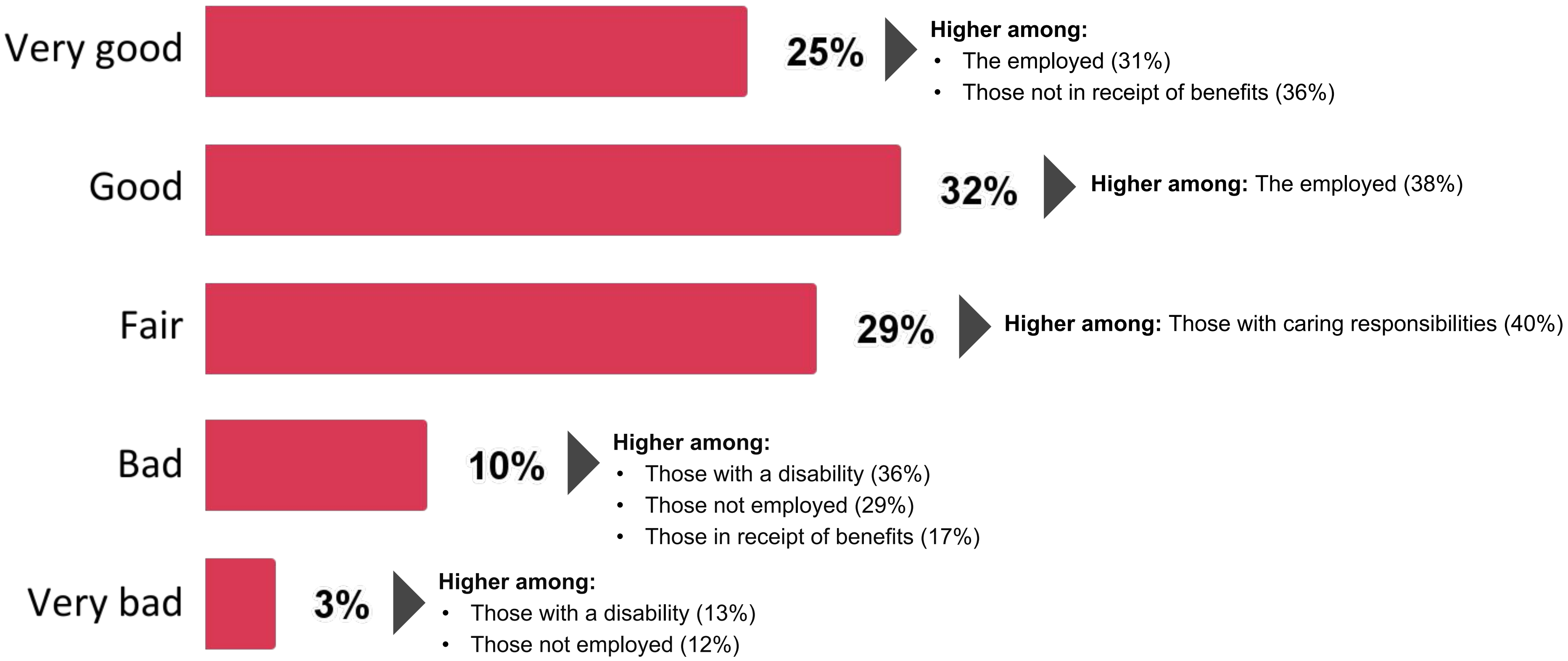
Q6.1 To what extent do you agree or disagree with the following statements?



(Base: All respondents 308)

Over one in ten view their health as very bad/bad, and this is higher among those with a disability, the unemployed and those on benefits

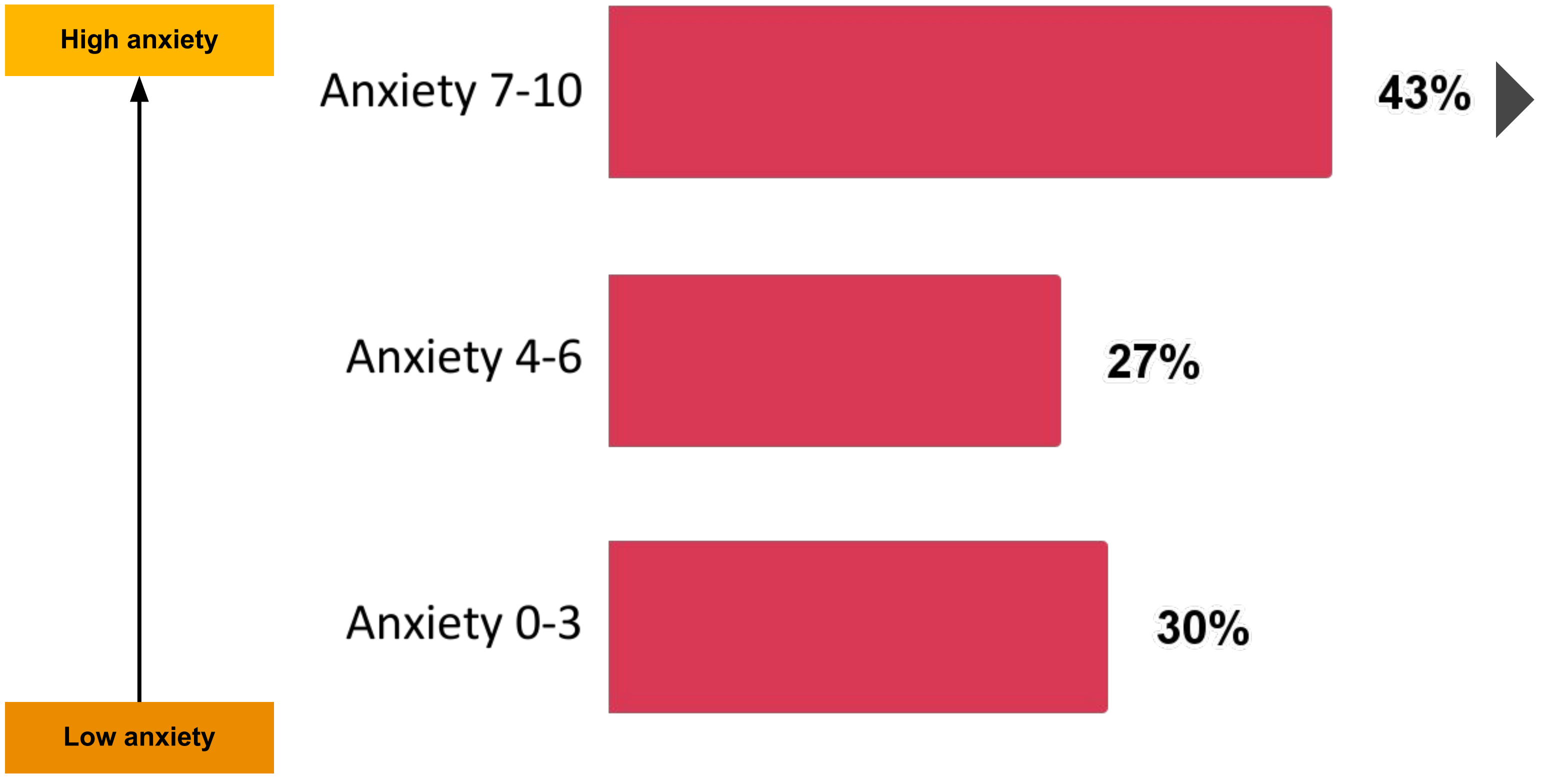
Q7.1 How is your health in general?



(**Base:** All respondents 308)

Over two fifths rated their anxiety a score 7 or above and this is higher among those with a disability, the unemployed and those on benefits

Q7.2 On a scale where zero is 'not at all anxious' and 10 is 'completely anxious', overall, how anxious did you feel yesterday?



Completely anxious '10' higher among:

- Those with a disability (24%)
- Those not employed (29%)
- Those in receipt of benefits (16%)

Versus 11% overall

(**Base:** All respondents 308)

Almost a quarter rated ‘life satisfaction’ 3 or less, and this is higher among the unemployed

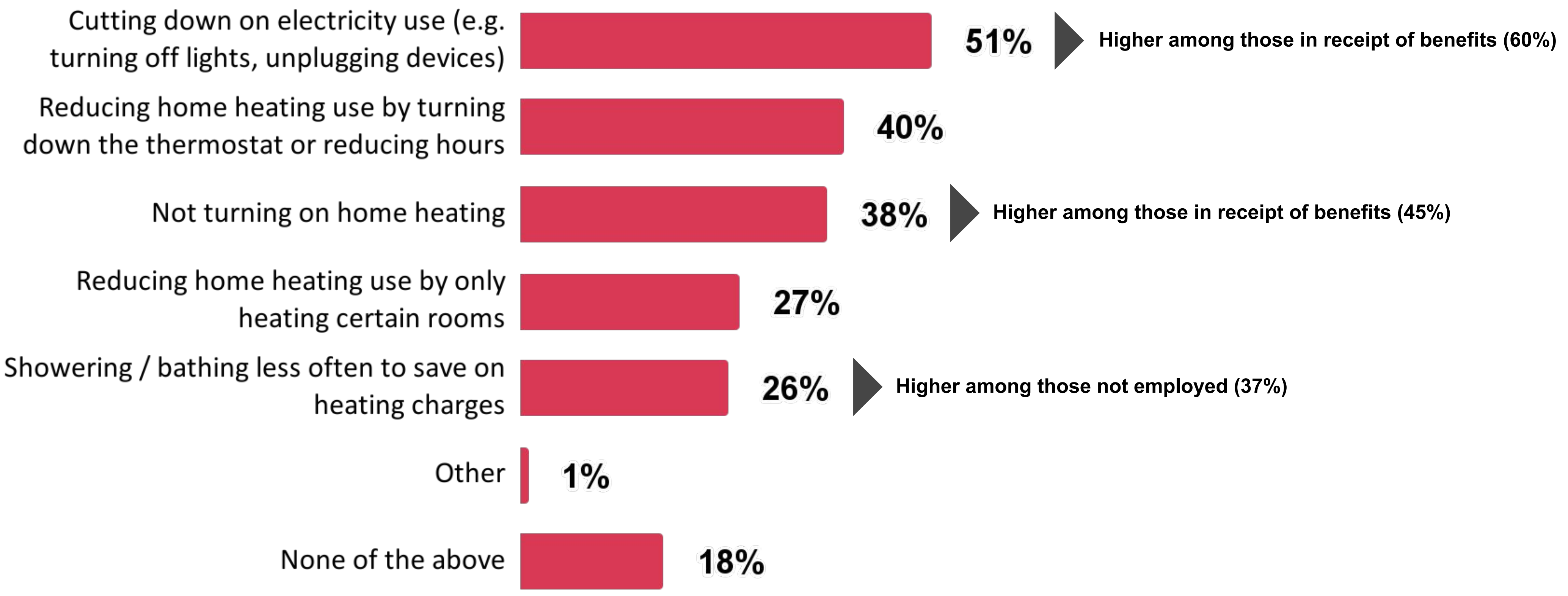
Q7.3 Overall, how satisfied are you with your life nowadays? On a 0-10 scale where zero is 'not at all satisfied' and 10 is 'completely satisfied'.

Not at all satisfied (‘0’) higher among those not employed (12% -vs- 5%)

(**Base:** All respondents 308)

Increasing energy costs has led to cutting down on electricity use by half of the respondents and reducing home heating by two fifths

Q8.4 Has the increase in energy costs led to you taking any of the following actions?



(**Base:** All respondents 308)

Indicative evaluation against hypotheses

05

Indicative evaluation against hypotheses

01	Core hypothesis: Any positive customer outcomes and social impact associated with a customer having access to NILS outweigh the costs of the scheme.	Not covered by this report. This will be covered in the impact evaluation methodology and VfM assessment. The approach for identifying cost efficiencies after each wave is still a work in progress.
02	Delivery of NILS through regulated lenders with established referral networks, rather than directly through charities as in international NILS schemes, is effective to deliver this product and its associated benefits and wider regulatory change is not needed to enable NILS to be scaled and delivered.	It is too early to comment on whether this model of delivering NILS through regulated lenders and established referral networks is effective as the referral partnerships have been slow to develop and the number of referrals is very low. As NILS processes evolve through the pilot, we hope to see concerns reduce around capacity to cope with an increase in loan volumes through referral partnerships. Further support from Fair4All Finance may also be required in order to progress the referral route e.g. further conversations with housing associations/local authorities and a wider education piece to ensure clarity around legalities of referrals and promotion of the value NILS is providing to those in need. However it may be the case that the referral route is not the most effective route. If charities were to deliver NILS in the UK, a change to primary legislation would be required as well as support to challenge some of the ingrained views of some debt advice charities that credit is not the answer.
03	There is a demand for NILS unmet by existing credit or support offers, and a propensity of borrowers to repay.	The NILS product is reaching an audience who otherwise would not have been able to access affordable credit and, from the verbatim in survey responses, it is clear the difference it is making to some beneficiaries' lives. A total of 3,494 loans have been issued (as of end December 2023) and beneficiaries have used words like 'heaven sent', 'unexpected heroes', 'life saver' to name a few, and they also cannot believe it is interest free. At this stage there appears to be no significant issues in repaying the loan with 89% of beneficiaries stating they experienced no problems repaying the loan. Loan health is strong with 78% of loans 'performing' and 4% already fully repaid. It is worth noting at this stage, however, that some lenders have a higher proportion of 'not performing' loans (which may be explained by customer profile, lender specific technical issues, or higher levels of lender loan maturity). Loan performance will continue to be monitored as the pilot continues.

Indicative evaluation against hypotheses (continued)

	Hypothesis	Evaluation
04	The two current routes into NILS (lender declines for commercial loans and referrals by related parties) are capable of reaching the borrowers most in need of a NILS solution without a publicly facing application process, we may in the future have a more public route in but that is not currently part of the pilot.	Given the referral route is still evolving, it is too early to draw a firm conclusion on this. However, analysis of the lending/loan data suggests that the loans are reaching the borrowers who are most in need. Excluding Lender 6's data from the analysis, given that they have a different customer base, the data shows that the beneficiaries are more likely to be of a 'vulnerable' nature. Using Fair4All Finance's segmentation model analysis shows that 51% of beneficiaries are in the 2 most vulnerable segments ('credit crisis families' and 'forgotten families'). Again this rises if we exclude Lender 6 from the data. However, only 11% of all beneficiaries belong to minority ethnic groups, highlighting an opportunity to improve on the diversity of beneficiaries moving forward. Given the lower volumes and the difference in lender customer bases, advertising NILS publicly would potentially have helped address these issues. However, this may have increased the likelihood of fraud. At this stage it is too early to draw any conclusions but it is possible the design has avoided fraud but resulted in lower volumes.
05	The two eligibility paths into NILS are the right configuration to target NILS most impactfully to reach those underserved or excluded from credit for whom this loan product will make the most difference where those two paths are: • Affordability • Credit worthiness	Lenders are using a combination of the two approaches to assessing eligibility (affordability and credit worthiness) to a greater or lesser degree. The data from lenders has not been clear enough to draw a definite conclusion on whether this is the right approach and this is something we would need to revisit in the final report.
06	A blend of delivery models is needed for NILS to suit a spread of borrower circumstances where some borrowers are better served by a high touch, more intensive delivery model which involves bespoke interactions and/or in person engagement and others are appropriately served in a highly automated manner and an optimal configuration of NILS across these delivery model(s) is an efficient and effective way to build a sustainable, permanent solution.	Although too early to draw any definite conclusions, at this stage the blend of delivery models does appear to be the way forward. The volume of loans that have currently been issued (3,494 loans as of the end of December 2023) could not have been reached without the more automated lender approach. Lender 6 and Lender 5 represent 80% of the loans issued, highlighting the success of their approach in reaching beneficiaries at mass. While it does appear that the more transactional approach of some lenders means a certain proportion of those most in need are not being reached e.g. those whose open banking data is not transparent and required more interrogation, the high touch, more intensive delivery models of other lenders, who use more personal interactions to better understand the individual's financial situation and judge their appropriateness for NILS and likelihood to repay, appear to be picking up those who would have been missed through the automated approach. In order for this to work, both approaches need to be evident in all regions of England, Scotland and Wales.

Indicative evaluation against hypotheses (continued)

07	NILS customers may transition to longer term, interest paying customers after their NILS loan(s), and therefore have a commercial lifetime value for the lender but some ongoing subsidy is needed to scale NILS into the future, the extent of which can be validated through detailed examination of the unit cost models related to NILS delivery through open book accounting.	There is an assumption among most lenders that there is potential for NILS beneficiaries to transition into longer term, interest-paying customers although their view is that it is too early to tell. However, qualitative interviews with beneficiaires has shown that a NILS loan on its own is potentially not sufficient to support the most vulnerable audiences – some have multiple challenges in their lives so better alignment with other non-finance related services coupled with NILS may help get them to a place where they can transition to mainstream products. Validating this hypothesis will involve a combination of the further lender interviews and the open book accounting which has not taken place yet.
08	The addition of wrap around support to borrowers including benefits calculators, referrals to alternative support e.g. grants, debt advice etc. and financial coaching alongside the no interest loan improves outcomes for both individuals and lenders.	The lenders confirmed that they do signpost beneficiaries to other organisations for non-financial advice. However, when asked specifically about non-financial products, almost six in ten of the beneficiaries surveyed (58%) claimed they were not offered non-financial products. A quarter were offered money coaching with Debt Free Advice and 23% offered the benefits/grant calculator. When offered, only 14% made use of money coaching with Debt Free Advice and 40% made use of the benefits/grant calculator. It is clear, therefore, that the positioning and communication of non-financial products may need to be re-considered. It is too early to quantify if wrap around support improves outcomes for beneficiaries with the current uptake being so low. From conversations with lenders, the view is that the NILS has enabled these lenders to give more help than they were able to before and that NILS is complementing the additional support they are giving their members.
09	NILS also supports the aims and objectives of partners who refer individuals into NILS providers and the existing credit broking exemptions to enable referrals into appropriate lenders (which give some flexibility to housing associations and local authorities) are helpful to enable these parties to engage, but could be made more impactful if extended to charities with relevant remits.	There is evidence in the qualitative interviews with lenders that, for those who have already established relationships with referral partners, the NILS does fit with the aims and objectives of these organisations. However, because these relationships are in their infancy, we have not conducted qualitative interviews with referrers at this stage – this will be completed later in the evaluation programme. With reference to the existing credit broking exemptions, many housing associations/local authorities were unaware they were able to refer so providing additional support to lenders when communicating with these parties as well as a wider education piece would help the development of referral partnerships. Extending the exemptions to charities with relevant remits would be valuable although anecdotal feedback from some lenders is that some debt advice charities do not see credit as the solution for some audiences. While a further educational/promotional piece may address this, a better route may be to focus on non-debt advice charities e.g. women's refuges.

Appendix

06

Using a robust counterfactual, the final evaluation has been designed to measure the causal impact of NILS on a range of outcomes

Step 1

For each of the nine hypotheses, a data availability assessment was conducted to determine potential sources of counterfactual data.

ONS Wealth and Assets survey longitudinal data collects suitable variables to test the hypotheses. This data is therefore used to construct the counterfactual.

Step 2

Data is being collected from NILS recipients in a way that is methodologically consistent with the Wealth and Assets survey, so that these data can be compared.

Questions relate to the nine hypotheses, demographics, location, and factors that are likely to predict financial wellbeing.

Step 3

At the end of the evaluation period, outcomes for NILS recipients will be compared to outcomes for non-NILS recipients who are characteristically similar.

The statistical algorithm for this comparison will be determined using Propensity Score Matching, in line with HM Treasury Magenta Book best practice.

Outcomes for NILS and non-NILS recipients will be compared using a process called propensity score matching.

Each NILS recipient will be compared to a distribution of individuals in the Wealth and Assets survey who are characteristically similar in terms of demographics, financial circumstances, and location.

The weight of each variable used in the matching process will depend on each variable's explanatory power on a person's 'propensity' to become a NILS customer, compared to the general population.

In this way, the 'counterfactual' group is statistically similar to NILS recipients in all ways other than the NILS loan. The difference between NILS customer outcomes and the counterfactual is therefore an estimate of the causal impact of NILS, and the distribution around this estimate can be used to determine the statistical significance of this impact (i.e. whether it is above the margin for error).

Timeline

Project inception

First interim report
Focussing on early process evaluation findings.

Second interim report
Focussing on survey data analysis and research findings from beneficiary feedback.

FY23

FY24

FY26

Final evaluation report

Full evaluation report containing counterfactual analysis of causal impacts of NILS against hypotheses, and VfM analysis.

The final report will assess the impact of NILS on the likelihood customers go on to become commercial (i.e. not NILS) borrowers.

Wealth and Assets survey data collection

NILS survey data collection

Thank you

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