# Access to Affordable Credit: Providing Pathways into Community Finance

**Learnings from a collaborative test of providing safe, affordable pathways to credit unions, for those currently ineligible for lending from their bank.**

February 2025

# Introduction

**Safe access to affordable credit is an essential part of financial inclusion**.

For many people without savings to fall back on, an affordable loan can help meet unexpected costs, smooth income and start to build financial resilience.

For some people without this access, it can mean going without essentials or being unable to pay their bills, while others are seeking alternatives from friends and family or pawning and selling goods.

This opens a potential route toward illegal lenders, both in person and online, where the risk of financial and other data related harms is much increased.

Research by IPSOS for Fair4All Finance shows that over 3 million people may have borrowed from illegal money lenders in the last three years.

And the absence of financial resilience can leave lasting implications and a higher likelihood of falling into debt cycles.

**There are no easy answers to complex questions of access to credit.**

The challenge for many banks is reaching the right balance between consumer protection, risk appetite and access to safe forms of credit.

What is clear is there are a large number of customers who can afford to take out credit but are unable to, due to thin credit files or a low credit score.

LEK research suggests that there are 10million people with thin credit files in the UK and an addressable and servable credit market of £2bn – demand which is currently not being met.

Of course, credit that leads to over indebtedness, negative budgets and collections can lead to bad outcomes for borrowers.

However, community finance providers are proving it's possible to serve people in vulnerable circumstances well in a sustainable way, with low default rates and good consumer outcomes.

As an industry, innovating and exploring new solutions could prevent growth of unregulated, exploitative loan sharks, and the associated financial and data crime, by improving regulated credit availability.

# Why Lloyds Banking Group looked at this

Where individuals need access to lending, which their mainstream bank cannot fulfil, they can find themselves approaching alternatives which may include high-cost lenders, and unauthorised lenders.

To mitigate this harm, exploration of regulated, safe lending alternatives has been undertaken.

Lloyds Banking Group and Fair4all Finance have worked with credit unions and other subject matter experts to understand what the role of a mainstream bank could be to offer support.

Whilst the community finance sector has a proven track record of offering affordable credit to low income customers, through our early collaboration it highlighted there is not a clear, sustainable route for consumers from mainstream lenders to the community finance sector.

As we explored ways to further enhance the support we offer to our customers, we wanted to ascertain if there was a potential pathway for scaling the offering and test our hypotheses, whilst also understanding the cohort of customers seeking lending when their eligibility is outside of mainstream banking parameters e.g. loans on shorter terms (including sub £1,000).

# Exploring a test which provides insight to inform the industry

In April 2024 a test was launched in Merseyside and Manchester, Lloyds and Halifax branch networks, offering a referral to those ineligible for mainstream lending with an essential borrowing need.

This test was extended in September 2024 to Birmingham and Wales Lloyds branches and hubs.

Fintech, NestEgg supported the test, providing the referral mechanism route:

> *'So far during the Proof-of-Concept NestEgg has focussed on a qualitative approach. We want to understand if there are specific 'types' of borrower and, if so, what is the best way to ensure they receive good outcomes.'*
>
> **Adrian Davies**, Co-Founder, NestEgg

Collectively, Fair4All Finance, the Welsh Government, NestEgg and Lloyds Banking Group provided financial support to launch the test and to eliminate barriers to participation.

## Journey Learnings

### Lloyds Banking Group

Throughout the test which continues until April 2025 our frontline colleagues have provided qualitative feedback, and have expressed appreciation for the 24-hour contact period provided through Nest Egg.

To help understand if customers' needs have been met it is important to monitor changes in internal customers behaviour gaining insights into any effects on customer service and financial engagement.

Additionally, we are aware that this test is only available to customers through a face to face interaction, and further insights may be gained from digital and telephony interactions.

Throughout the building of the journey the test highlighted some key developments to improve the customer experience such as:

- Streamlining the customer journey by simplifying the steps and providing clear guidance.
- Removal of sign-up process to move

through the journey more efficiently

- Qualitative customer feedback suggested this cohort of customers was used to a quicker speed of lending

Whilst it is still early to analyse what the data is showing us, we have seen a commitment from all involved to continuously improve the customer journey and make it smoother and more accessible for both customers and community lenders.

We are eager to gain insights from others through further tests with diverse customer groups, such as those utilising others channels, to inform and guide our ambitious objectives in supporting customers who are ineligible for prime lending.

### Association of British Credit Unions Limited (ABCUL)

*'ABCUL are delighted at the progress and development of the loan referral scheme pilot which brings together credit unions, Lloyds Banking Group, NestEgg and Fair4All Finance.*

*'The pilot has provided individuals with access to affordable and ethical lending from local credit unions who would otherwise have been declined by mainstream lenders.*

*'The pilot is not without its challenges including the broader funding challenges which includes the loan referral fee, varying speeds of processing and interest rates, and the dropout rate for some who find some of the application journey cumbersome.*

*'The scheme shows the potential for this to become a wider project which could be embedded in the processes of mainstream finance providers across the country, to ensure those who are declined lending are directed to a safe and ethical lender. '*

**ABCUL**

## Observations

### Fair4All Finance

We are focused on understanding the customer experience and outcomes for over 20 million people in financially vulnerable circumstances, specifically around whether this improves access to credit for certain groups.

Early findings suggest we are seeing customers with 'thin credit files' or lower credit scores come through the process, rather than those with adverse credit or affordability issues.

We have seen customers looking for loans through bank branch referrals seeking slightly higher values than anticipated. However, the profile of a borrower could lead to self-selecting bias.

Looking at customers seeking a loan face to face in branch, this could imply they might be a more confident consumer, both in their willingness to seek this in branch and having clarity on the purpose of the loan.

The other implication of this is that such customers are more price conscious versus when Fair4All Finance and other organisations have done research in the past with customers in financially vulnerable circumstances.

Price has typically been a lower consideration in choosing a lender for a smaller value loan versus other key factors such as reliability in accessing the funds.

As such, we see a customer drop off rate when presented with higher prices from certain credit unions versus Lloyds and Halifax typical rates.

However, from other customer insights interviews conducted as part of this work, we recognise the importance to customers to have an effective mechanism to window shop and understand the options available to them, as well as the actual provision of loans for those who choose to proceed.

Knowing that you can access a loan and under what pricing can be helpful for setting people's minds at ease.

Another profile we have seen is customers with fewer identification documents readily available to support a loan application process.

This again may point to why customers have opted to pursue a face to face in branch route, rather than the more popular digital channel.

An important adjustment in the process so far has been to prepare customers in branch on the type of documentation needed, as well as provide them with bank statements in the referral process to help them.

NestEgg is also looking at other mechanisms to help lower the identification barrier we have seen in the data so far.

It is also important to understand the impact and potential benefits that credit unions experience by being involved.

For this to be a viable and scalable model for the lenders involved, it needs customers coming through the process to be a good match and prove to be cost-effective leads.

This can further build volume and efficiency to improve the unit economics for each lender, through the lowering of acquisition costs and credit reference agency (CRA) fees.

It's too early to tell this from the numbers Lloyds Banking Group and NestEgg have seen as to whether this proof of concept is demonstrating a scalable route to unlocking access to alternative safe routes to affordable credit.

However what is clear from this proof of concept is that Lloyds Banking Group has advanced closer links and understanding of the credit union sector, which is critical to the success of this work.

## NestEgg

*'One emerging borrower type is the 'thin file' applicant. Often people affected are new to the country or may have deliberately avoided credit. As a result, there's little on their credit report.*

*'By their nature, thin file applicants haven't done anything wrong. There's no credit card limit to reach or accounts to default on. Despite this, risk indicators, such as credit score, are lower than people who may have defaults or other adverse credit history.*

*'That doesn't seem fair. Open Banking is proving to offer a solution and a higher accept rate. We need to maximise take up of this service.*

*'Another borrower type is a customer in a vulnerable circumstance. When credit risk indicators like low credit scores are influenced by factors related to vulnerability rather than non-repayment, assessments could unfairly penalise vulnerable individuals.*

*Because of this, NestEgg is looking at ways to identify vulnerable customers referred to its*

*Broker Platform. This will help ensure fair pricing and better access to support where required.'*

*'Despite the qualitative approach, there has been enough quantitative data to help us improve the customer journey.*

*'There's an understandable reluctance to share too much data too soon. This is especially the case with Open Banking. We've taken these findings on board, and will be releasing an updated customer journey.*

*'The overall aim is to maximise adoption of Open Banking. This will result in faster turnaround, higher accept rates and support for financially excluded borrowers.'*

**Adrian Davies**, Co-Founder, NestEgg

## Lloyds Banking Group

It's been great to see the strong levels of collaboration, which really helped our understanding and shaping of the test.

Further expansion of testing across the industry using different customer channels, would provide a useful lens to enhance the insight shared by NestEgg and further inform the industry.

Whilst we have identified there is a useable pathway, many challenges still exist as demonstrated in this paper.

## Welsh Government

*'Following engagement with responsible lenders in Wales and the joint FCA/Welsh Government event on "Banking in Welsh Communities" held in Wales in March 2024, the importance of working across the mainstream banking and ethical credit and lending sectors to define a consistent pathway for the onward referral of customers who have been refused mainstream lending to ethical lenders was championed by many participants.*

*The project led by Lloyds Banking Group and NestEgg addresses this area using a test approach which is taking on learning as an integral part of the project.*

*The Welsh Government is interested to explore this approach in Wales and will use the learning to inform future policy approaches.*

**Jane Hutt MS**, Cabinet Secretary for Social Justice, Trefnydd and Chief Whip

# Conclusion: what's next?

**For us to judge the viability of this concept we need to see a greater volume of customers supported through this process.**

For this to happen a fully digital and telephony journey needs to be tested. And we encourage more collective action by banks, building societies and others within the broader ecosystem to test various customer channels.

A long term consideration in the ability to expand referrals, is the scaling of the community finance lenders.

For the sector to take on significant volumes of lending, they will need additional investment in the form of more lending capital, subordinated shares and reserve capital support and grants to support lending to the most financially vulnerable customers.

Given the overall scale of demand, it's unlikely to be met by community finance alone.

We welcome new and existing firms focused on serving people in financial vulnerable circumstances, and banks and building societies exploring alternative data sources and risk underwriting models to enable them to serve a wider customer cohort.

We believe innovative pilots like this one are instrumental in helping lenders gain a deeper understanding of the customers ineligible for lending with them.

And what this could mean for innovation in customer strategies, to support access to affordable credit and create a credit market that supports people to financial resilience.