Enabling access to affordable credit for social housing residents

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Contents

1. Acknowledgements

This research report explores the dynamics and impact of the affordable loans project organised by the Affinity Sutton Group (ASG) in order to enable its residents nationwide to access credit through Places for People Financial Services (PfP).

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This research report was written by Nick Money and Paul A. Jones, of the Research Unit for Financial Inclusion at Liverpool John Moores University (LJMU). Nick and Paul formed the team who conducted the action research study.

The opinions, ideas and recommendations contained in this report are those of the authors, based on data generated through the research project. They do not necessarily reflect those of Affinity Sutton Group, Places for People or any particular participating agency.

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2. Introduction

In 2012, the Affinity Sutton Group (ASG) contracted with Places for People Financial Services in order to enable ASG residents to access its affordable loans project. PfP Financial Services (henceforth designated PfP) is a credit company wholly owned by Places for People Group, one of the largest property and leisure management, development and regeneration companies in the UK. For many years, PfP has provided loans to its own social housing residents through a call centre-based sales and service operation in Preston. Through a commercial arrangement between the two organisations, it was this service that was extended on similar terms to ASG residents. The current ASG arrangement with PfP is due to run to 31 March 2016, when it will be reviewed.

For ASG, the affordable loans project forms an important part of its overall financial inclusion strategy, aimed at supporting the financial resilience of its residents. The aim of the project is to enable all ASG residents to have an affordable credit option; this is regarded as particularly important for those residents who might otherwise have few options but to borrow from high-cost credit providers. ASG is well aware that many of its residents do access high-cost credit options, and a major concern of ASG in facilitating the project was to assist those who were indebted to high-cost lenders to transition to a more affordable option.

The affordable loans project was first run as a pilot focusing on ASG's North of England region, which covers approximately 12,620 residents. This pilot lasted from January to September 2012. Subsequently the project was rolled out nationally and was made available to all 49,000 ASG residents.

The main features of the PfP project in respect to the specifications for the loan product, service delivery, respective responsibilities and commercial terms were agreed as:

- ASG is responsible for all marketing and promotion of the loans project to its residents. Residents responding to ASG leaflets, posters, notices in newsletters, text messaging and web-based information or to verbal communication about the project through ASG staff are directed to a PfP telephone number, where sales and service are transacted entirely by PfP staff
- If the loan is agreed by PfP, a contract is posted to the applicant to sign and return in order to complete the application process. For all applicants, all contact regarding the loan process is conducted through PfP on the telephone. ASG has no involvement in the loan granting or follow-up processes
- A rigorous affordability check is undertaken for each loan application with PfP staff discussing income and expenditure often in detail with applicants. Applicants have to provide bank statements and proof of income and send this documentation to PfP for verification. Sometimes utility bill statements are also requested. PfP uses standard credit scoring techniques to assess capacity to repay
- As a standard part of the application process, PfP also requests a rent status check from ASG. Applicants are normally declined a loan if they are more than eight weeks in rent arrears (applicants with arrears less than eight weeks will be considered so long as there is rent repayment arrangement in place). It is a firm policy decision by

ASG not to cross-subsidise arrears through PfP loans and no loans are made to make up rent arrears

- The loans are priced at 29.9 per cent APR (considerably lower than home credit and other high-cost credit providers), with a maximum value of £500 for the first loan, with subsequent loans granted according to an individual's capacity to repay
- ASG pays PfP a per loan administration fee to cover operating costs. This enables PfP to price loans at a lower interest rate than is commercially feasible. Defaults on loans are covered through income generated through the interest charged on the entire loan portfolio
- Given the rigour of the assessment process, the time period between loan application and payment can take several weeks. There is no attempt to offer an instant credit service, as PfP and ASG wish to ensure that applicants reflect seriously on their need for credit and their loan application.

Between January 2012 and December 2014, 268 loans were taken out by ASG residents, with an average value of £613. 146 individual borrowers took out these loans, with some borrowers successfully taking out two, three or four loans (four loans was the highest number per borrower recorded in the study, but there is in fact no limit to the ongoing number of loans a beneficiary of the project can obtain. However, each beneficiary is only allowed one loan at a time).

3. Action research programme

From March 2012 to December 2014, ASG engaged the Research Unit for Financial Inclusion at LJMU to undertake an action research study into the dynamics, operations and impact of the PfP affordable loans project.

This report concerns the findings of this study. The current PfP affordable loans project continues until 2016, but this report only concerns the period 2012 to 2014.

Throughout the period of the study, the research team produced four interim reports for ASG and PfP, and this report summarises the main findings of those reports. Unlike this final report, the interim reports were not published in the public domain.

Following this final report, there will be a further continuation research study, from January 2015 onwards, into the expansion of access to affordable financial services for ASG residents. This will explore progress on the PfP affordable loans project, and also the impact of a new arrangement between ASG and Leeds City Credit Union (LCCU) to offer LCCU products and services to ASG residents nationwide. The continuation study will investigate the relative effectiveness of the outreach and delivery of these two financial services and how they can complement one another within ASG's overall financial inclusion strategy.

Research objectives

The objectives of the 2012 – 2014 research study were to answer the following key four questions agreed with ASG at the outset of the project:

1. To what extent did the PfP project meet its objective of delivering affordable loans to financially excluded ASG residents?
2. What was the impact of the loans made on beneficiaries and their families?
3. Did the project achieve any additional benefits for ASG and how could the programme be developed to capture any such benefits?
4. What themes or issues emerged in the study that would need to be addressed in the management, delivery or development of the programme?

Research methodology

The study was based on both qualitative and quantitative research methodologies.

Qualitative research study

The RUFI team targeted 80 research contacts with ASG residents and with PfP and ASG staff through semi-structured interviews, discussions or focus group participation during the project period. This overall target was broken down into 60 telephone interviews with residents, 12 resident participants of focus groups and eight interviews with staff members.

In the end the team undertook:

- 42 telephone interviews with ASG residents, all of whom had applied for or taken out PfP loans These included ten residents who had missed loan payments, four who had been declined loans (although three of these had been granted a loan previously) and seven who had successfully taken out three loans or more. 42 interviews represented 70 per cent of the original target.
- Two focus groups, one in South Shields and one in London involving ten residents in total, only one whom had previously contacted PfP. The ten residents participating in focus groups represented 83 per cent of the original target.
- Ten interviews with ASG, PfP and LCCU staff members. These interviews exceeded the original target by 20 per cent.

The researchers worked hard to engage residents in sharing their views on the loans project, in particular they endeavoured to speak with those residents who were declined loans or who had difficulties with repayments. However, the resident interview plan was adversely affected by some residents being unwilling to participate in discussions about their personal finances, and by the relatively limited number of residents who had used the loans project.

Initially residents were cold-called by the research team to request an interview which proved not to be very successful. Not only was it difficult to contact people on the phone, sometimes people were suspicious when called unexpectedly. Response rates improved when people were written to first in order to ask if they would be willing to participate in an interview. If they wished to do so, they were asked to return a tear-off slip in a pre-paid envelope to the university. A £10 food voucher was offered as an incentive to participate.

In general, response rates were higher than would normally be the case in standard market research. In contacting people who had used the project for three or more loans, for example, the positive response rate to requests for interviews was 47 per cent of the total number of beneficiaries who had taken out three loans or more (n15). In regard to declined loan applicants, who were the most difficult to engage, letters were sent to all 18 people declined loans by PfP as of June 2014. Four people responded to the letter, which was a 22 per cent response rate, which was regarded as reasonable given the circumstances.

The focus groups were designed to reach a wider group of residents, mostly those who had not applied to the PfP loans project, in order to consult on their experience of access to credit in general as well as on their understanding of the background, purpose and operation of the ASG/PfP loans project. The objective was to ascertain the potential for the further development of the project and its take-up among resident communities.

In addition, the face-to-face and telephone interviews were conducted with ASG, PfP and LCCU staff. The interviews with relevant staff were to assess performance against expectations, and explore the lessons learned from the operation of the project.

Quantitative research study

Throughout the project, the research team reviewed management and other performance information to evaluate progress in terms of the volume and value of loans issued, the levels of arrears and the numbers and sources of enquires from residents. This enabled the team to comment in the series of interim reports on the development of the project and, in particular, on the level of resident engagement and take-up of loans.

The team built a spreadsheet economic model to analyse the income, operating costs and bad debts arising from the project to date. This allowed the team to evaluate the potential financial sustainability of the loan portfolio for PfP, as well as consider the implications of alternative pricing and volume scenarios. This information was supplied to ASG and PfP in the four interim reports.

4. Key research findings

The research findings are grouped according to the four key questions as noted under research objectives in section three above.

4.1 Delivering affordable loans to financially excluded residents

Reaching the target market

The PfP loan offer is open to all Affinity Sutton residents irrespective of social or economic circumstances. There are no eligibility criteria to determine the level of income or the extent of financial exclusion of applicants.

However, the underlying objective of ASG was to reach out to and support people on low incomes who had little or no access to affordable credit, and who often had little option but recourse to high-cost lenders. Given that 70 per cent of Affinity Sutton residents are on welfare benefits, and that the PfP loan offer is capped at £500 for a first loan, it was a fair assumption by ASG that the majority of project beneficiaries would be on low-incomes and, for the most part, would have difficulties or worries about accessing mainstream credit. This assumption was borne out through the interviews with ASG residents.

Of the 42 interviewees, only seven people were in full time work, six were in part-time work and the remaining 29 were in receipt of some form of welfare benefit including income support, disability living allowance, jobseekers allowance, carers allowance and employment support allowance. Several were retired on state pensions, with one also on a small private pension.

The people in employment were not asked the amount of their income, but all indicated that they often struggled to make ends meet. All said that they lacked the level of savings to purchase necessary household items, fund Christmas and holidays or cope with an emergency.

The majority of borrowers on the project were women, many of whom with children, and it were often for items related to children that people sought a loan. They needed loans for new beds, carpets for the children’s room or Christmas presents. The fact that the project was mostly used by women was reflected in the interviews. 74 per cent of interviews (n 42) were with women. Of the 15 repeat borrowers in the sample, 87 per cent were female.

Around 60 per cent of the people interviewed (n 42) had borrowed or were borrowing from alternative sub-prime credit providers. In the first group of residents interviewed, five out of the six interviewees had or were using catalogues, home credit or payday loans. In the second group of ten people, 50 per cent had regular experience of using high-cost credit, and several had suffered from the strain that high-cost lending puts on the household budget.

Across all interviewees, there was a general understanding of the high cost of sub-prime borrowing, even though the availability and access to this form of credit was sometimes valued, given the lack of other more affordable providers. The cost of the credit though, and the dangers of becoming entrapped in over-indebtedness was a constant worry for many.

Some spoke, however, very negatively of their experience of borrowing from high cost providers often citing that the pressure to borrow and the impact of repayments on the household budget. But comments about problem debt were not restricted to the high cost credit market. Some people related experiences of difficulties with mainstream credit. One interviewee, for example, who had problems with bank loans and credit cards felt she was always pushed to borrow more and more, but in the end she could not afford it and became deeply over-indebted. The result was that she now had no access to a bank account or credit cards, and, before the PfP project, had no source of credit apart from high cost lenders. Another interviewee said that she did not think she could obtain credit because of her poor credit history which arose not from default on loans but from failed direct debits and unauthorised overdrafts arising from missed payments on utility bills following a divorce.

Not everyone, however, had experience of borrowing from high-cost or mainstream lenders. Several said that they avoided credit altogether as they felt excluded from credit given its cost and the unfavourable terms and conditions of borrowing on a low income. Some people said that they were fearful of entering the high-cost credit market given the dangers of over-indebtedness. However, they were much more confident about borrowing from PfP as they felt not only were repayment terms affordable but, given the project was endorsed by ASG, they felt that PfP was a company that they could trust.

From the beneficiary interviews, therefore, there were certainly good reasons to conclude that the PfP loans project was reaching people on low-incomes who were in need of, or could benefit from, an affordable credit option. Most interviews demonstrated that PfP is providing a valued alternative to high cost credit for ASG residents, either as an opportunity to move away from high cost credit, or to reduce dependency on that source of borrowing. Overall it gave people an opportunity to access credit from a company they felt they could rely on.

Around 80 per cent of people using the loans project said that would use PfP in the future if they needed further credit. As one interviewee stated;

> *"I would rather get loans from PfP, there is no hassle and it's affordable; other lenders bother you, I would recommend it [the project], it helps people who are on a low income, on benefits like me. I think it is good".*

In fact, 35 per cent of all beneficiaries (n 146) went on to take out further loans from PfP.

The demand for affordable credit among ASG residents

Prior to the pilot, ASG housing officers were aware that many residents were under financial pressure and often resorted to using high-cost credit providers which only compounded stress on the household budget. In worst case scenarios such stress led to severe over-indebtedness and sometimes to default on rental payments, thus risking a resident's tenancy. They also knew that there were other residents who had problems with mainstream credit and were over-indebted on bank overdrafts and credit cards.

They were also aware that there were other residents who avoided both mainstream and high-cost credit, out of a fear of not being able to manage repayments on a low budget, but were then left in difficulties when they needed to purchase essential household items or to meet unexpected calls on expenditure.

It was this knowledge that led ASG to the conclusion that many residents needed access to affordable and responsible credit if they were to be supported to achieve financial stability.

The interviews and focus groups confirmed the need for affordable credit among the ASG residents. Interviewees spoke of the importance of the loans project and how it had assisted or could assist them or other residents to avoid resorting to high-cost credit options, whether from sub-prime or mainstream lenders and to becoming over-indebted. The focus groups in particular revealed clear evidence of demand for credit among ASG residents. Participants shared their experiences of borrowing from family and friends, from doorstep lenders, pawn shops and catalogue companies. These high-cost lenders were exactly the providers to which the PfP project was seeking to provide an alternative.

The majority of borrowers said that they were seeking credit before they found out about the PfP offer, and that they would have taken out a high-cost option if the PfP loans project had not been available. Others said that they were prompted to borrow in response to the PfP loan advertisement. Some of these said that they would not have borrowed from another lender if the PfP loans project was not available, but would have gone without or saved for the item. But this would have been a struggle, and it would have meant going without a basic or essential item. A number of people stressed, that even though they resisted taking on high-cost credit, they were worrying about how to identify funds to meet a pressing need. The PfP offer came at an opportune time for them and solved an immediate difficulty

Interviewees reported needing credit for a range of reasons, including the arrival of a new baby, equipping a new flat with furniture, replacing a broken fridge freezer or cooker, redecorating and purchasing carpets, for Christmas and Eid presents or paying for a headstone for a recently deceased husband. Several people needed loans related to employment; one man used the loan to pay for a hackney carriage licence and a woman to refurnish her property so that she could open a child-minding business. Both these beneficiaries subsequently obtained employment through taking out the PfP loan.

All the people interviewed said that, if they needed credit in the future, they would first approach PfP. With very few exceptions, borrowers reported that the project was highly valued and all expressed the wish it should continue as a service to ASG residents.

However, in relation to the number of residents in ASG properties, the number of people served with credit and the volume of loans made were modest. It was clear that the need for credit union among ASG residents was not being converted into a demand for PfP loans from large numbers of people.

Both the pilot and the subsequent nationwide project considerably undershot the target numbers for borrowers and for loans as set at the outset by ASG and PfP. It is estimated that throughout the period of the project, just 0.3 per cent of ASG residents used the loans project (n 48,808[1]). Among Places for People's own resident population, the PfP loans service achieved a penetration rate of circa 3.5 per cent after six years of operation, with no marketing investment in the final 18 months. This demonstrates a measure of the potential and possible demand among ASG residents, but also raises the question why current demand was so low.

The reasons for low take-up on the loans project among ASG residents formed an important aspect of the research enquiry. From discussions with beneficiaries and residents, it appeared that there were at least three main reasons for low-take up:

- Limited awareness of the PfP loans project among the resident population – despite the mail-shots of leaflets, the inclusion of information about the project in residents' magazines and on the website, still many residents did not know about the project. This was clearly revealed in the focus groups were the majority of participants said they knew little or nothing about the loans project
- The greater visibility of high-cost lenders in the media, in high streets or on the doorstep on estates. People are bombarded with information about access to high cost credit; and when this is combined with a tradition and culture of using high-cost credit providers it can be regarded as the familiar, easier and expected option
- The quick access to funds from some high-cost providers. As will be explained later, and often for good reasons, access to a loan from PfP project could take several weeks. This could be seen by some residents as a disadvantageous.

Marketing the PfP loans project

From resident interviews and focus groups, it was clear that the need for affordable credit among residents must be higher than was reflected in the applications for PfP loans to date. It seemed that resident awareness and knowledge of the project was insufficiently high to motivate large numbers of people to contact PfP and make a loan application. Yet, residents

[1] This number of residents was used in the evaluation pilot report in December 2012 and has been retained for consistency, given no substantive change to the resident base

in interviews were convinced that greater outreach and effective marketing would result in an increased applications and demand for loans.

In fact, as statistics confirmed, ASG mailshots and leaflet drops to residents did result in increased numbers of enquiries and it was easy to plot the relative upward spikes in loan applications with particular ASG marketing campaigns.

In its agreement with PfP on project delivery, it was ASG not PfP that was responsible for initiating and organising marketing campaigns. This may have resulted in a certain dislocation in the promotion of the loans project. ASG staff did not always have the time to devote to marketing and indeed some staff members, as emerged in discussions, had concerns about a social landlord appearing to promote credit or being seen to sell loans to residents. This probably resulted in the marketing of the project to be relatively low-key. The loans project was available to residents but it was not sold, for understandable reasons, in any entrepreneurial or aggressive manner.

Residents in interviews, however, expressed no hesitation in speaking of the value of the loans project and encouraged ASG to promote it more widely.

For the most part, marketing was confined to intermittent mailshots, some leaflet drops and notices in the resident magazines and on the website. Indeed, when asked in interview, the majority of beneficiaries said that they learnt of the loans project from a leaflet or magazine. One or two said that they had seen a poster in an ASG office but, interestingly, very few said that they had learnt about the project from friends, family or other residents.

It appeared that knowledge and information about the loans project had only marginally permeated the social networks of ASG communities. Most participants in the focus groups, for example, said that they had little or no knowledge of the project even though they lived on relatively high-density ASG estates. The issue of marketing through written material was highlighted by residents as a key issue in the promotion of the project.

Marketing through the distribution of written material clearly has some impact, as the spikes in loan applications demonstrated, but research in low-income communities has often shown that communication about financial services is best communicated person-to-person through word of mouth[2]. Few people read leaflets properly, even though some do, and most people in low-income communities are far more influenced by direct personal communication from family, friends, neighbours, and from staff members who they know and trust.

Much resident discussion on the importance in the expansion of marketing and promotion of the loans project focused on how information could be better circulated through the social and community networks that directly impact on the lives of ASG residents. There were calls for resident groups to be more actively engaged in promotion so that they could directly communicate information to resident communities. The involvement of resident representatives and loans project volunteer champions were seen as key to promoting knowledge and awareness of the widely among the resident population and as essential to ensuring that the loan offer reached hard-to-reach and financially vulnerable residents.

Residents also referred to the potential role of housing officers in actively promoting the project through their regular interactions with residents, particularly at tenancy sign-up. This was seen as important as it was an opportunity to explain the benefits of the project to

[2] Cf. Jones and Barnes (2005), Would You Credit It? The Co-operative Bank, Manchester

residents. However it was recognised that housing officers are engaged with other priorities and promoting a loans project may not always be high on the agenda of all.

It was also stressed that for this to succeed housing officers would need training to understand the nature and operation of the PfP loans project, and of the benefits it could offer to residents.

It was also recognised that there are other ways to promote the project, in particular through digital technology. ASG is increasingly moving to communicating with residents through the internet and text messaging but the impact of digital communications is yet to be seen in application volumes. The link between digital and financial inclusion is an area that would benefit from greater research investigation, as ASG increasingly moves to communicating technologically rather than through direct personal face-to-face interaction.

Attractiveness of the PfP loans project to ASG residents

Interviews with residents confirmed that once people were aware of the PfP loan offer, it was seen as an attractive proposition. A number of reasons were put forward by beneficiaries as to why they were attracted to the loans project. The main reasons mentioned were:

- The project came with the endorsement of ASG, which was regarded as a trusted intermediary. This was important for many residents, particularly those who were hesitant about borrowing from high-cost lenders. Typical comments included:

  > *"Because it was from Affinity Sutton, I thought would be more trustworthy, as I live in an Affinity Sutton house"*

- The fact that the project made it clear that it served people on low incomes, those who were excluded from mainstream credit, or were housebound or disabled. Interviewees said that they identified strongly with the target groups and considered that the project was designed to respond directly to their needs and their situation

- The availability of the loan and the convenience and simplicity of the application process were often stressed as important factors. As one interviewee remarked,

  > *"The most important point for me was that I could get the loan and afford the repayment"*

- The cost of the loan and its affordability within the household budget. Even though most people could not quote APR rates, all interviewees were sure that a PfP loan was cheaper than any other option they might have. As one person noted:

  > *"If had gone to [the home credit collector], I would have been paying four times more"*

- The flexibility that PfP offered in terms of repayments. This was a very important point for several people. The fact that people could repay weekly, fortnightly or monthly enabled loan repayments to fit closely with the cycle of the household budget

- The robustness of the credit assessment process was noted by several residents. They were happy that PfP ensured that they did not borrow more than they could afford

- With only one exception, all interviewees spoke highly of the friendly reception that they received when they telephoned PfP to enquire about a loan. Overall, borrowers found PfP staff to be understanding of their financial situation and helpful in assisting them to negotiate the application process.

It was significant that over 90 per cent of all borrowers, including people declined a top-up or follow-on loan, were positive about borrowing from PfP.

Supporting migration from high-cost credit

There was evidence from interviews that around 50 to 60 per cent of project beneficiaries had previously used, and often had been dependent, on high-cost credit.

Around 30 per cent of the people who had used high-cost credit, had an outstanding loan from a high-cost lender when they applied for the PfP loan. Typically these were payday loans, catalogue debt or home credit loans. The availability of the PfP project meant that they no longer had to continue such high-cost borrowing, but rather they had the opportunity to pay down high-cost debt at the same time as repaying a PfP loan. PfP only granted a loan when such outstanding debts existed, if they were manageable within the household budget. In cases where debt to other lenders was still relatively high, PfP would decline a loan until the outstanding balance was significantly reduced.

In fact, there was no evidence from any loan beneficiary of any current problem debt with other credit providers. Even though people had used high-cost credit, no person interviewed reported being in serious over-indebtedness with other borrowings. PfP were rigorous in their affordability checks and endeavoured to ensure that only people with the capacity to repay took out a loan. The fact that all borrowers have to be in relatively good standing with rent payments may indicate that people in evident current financial difficulty with credit were not normally served through the project.

Typical comments from beneficiaries in regard to the move away from high-cost credit are illustrated in the following quotations taken from interviews:

> *"It was a nightmare; paying back was a big problem. I think I paid back four times what I borrowed and it took ages. It got to a point that I had no money left to live on as it was all going to the lenders"*
>
> *"PfP helped me not to use Wonga; that was important. PfP is very easy, it just comes out of the bank and I do not notice it"*
>
> *"I have no temptation to go back to home credit".*

For a large number of borrowers, the PfP loans project now offered a practical solution to migrating away from high-cost credit. Most beneficiaries stated that they would prefer to use the PfP loans project in the future and desist from using high-cost options. They now said that if they were able to, they would only use the PfP project.

Even a person who had been declined a top-up loan, because of the level of her existing balance, and who desperately needed a loan to attend her daughter's wedding, sought out another affordable social lender. She was adamant that she would not return to a high-cost credit option.

Credit administration

In general interviewees found the loan application process to be easy and problem-free. All but one of the people interviewed said that the PfP staff were understanding of their financial situation and helpful in the way they conducted the interview and managed the application process. Nobody had any complaint with how they had been received or dealt with.

The telephone-based application process was regarded positively. In fact, telephone application was seen as an asset by most people. In the interviews, most interviewees were strongly in favour of being able to use the telephone to apply for a loan. One person who worked said she would not have time to go to see somebody face-to-face and telephone application was a real help for her. Another person, who was disabled, said she could not physically go to an office, which made the PfP loans project a better option for her even than the local credit union, of which she was also a member. Many spoke of the convenience and sometimes the value of the anonymity of the phone.

There were a minority of people, however, who would have preferred a face-to-face loan application interview. Examples included a person whose first language was not English and someone who wanted to deliver her paperwork in person. The latter felt that transmission of paperwork in the post, particularly when there were queries, delayed the granting of the loan,

Highly appreciated was the fact that applicants were telephoned back and the time taken by PfP staff to explain the terms and conditions of the loan. It was the personal nature of the service offered by PfP that was highly regarded and seen as one of the main attractions of the project. They were particularly appreciative of the way in which the staff assisted them to go through the household budget and identify how much they could afford to borrow.

PfP undertook a rigorous credit assessment and measured risk and capacity to repay by the same criteria as used for its own housing association tenants. On the ASG loans project, the decline rate averaged around 20 per cent. The main reasons for loan declines were issues associated with credit record, affordability, or both credit record and affordability. The applicant not providing supporting documentation was a secondary issue and issues with rent records accounted for only nine per cent of declines.

One issue that arose at one stage in the project concerned the refusal of loans to people who had significant borrowings from high-cost lenders. It can be the case that borrowers prioritise repayments to social lenders whilst at the same time being over-indebted to other lenders. Responsible lending guidelines mean that social lenders cannot serve people whose over-indebtedness to other lenders comes to light. These borrowers can be disappointed when refused a loan when they have repaid previous loans from the social lender without default. How such a decision is presented to a loan applicant is a challenge for social lenders as it demands careful, sensitive and customer-focused handling.

The interviews with applicants who were declined a loan revealed that PfP does ensure that borrowers do not suffer financial strain or are led into over-indebtedness. In all cases, the interviewees were declined a loan in order to prevent greater financial distress. In one case, a person with a payday loan was refused but informed that she could reapply when she had finished her payday loan repayments. This she accepted as being in her best interests.

It was significant that in the focus groups it was stressed by residents that ASG should not be involved in any loan scheme that could result in financial detriment for borrowers. Focus group participants appreciated the need for a rigorous credit assessment process and understood this as being a fundamental aspect of a loans project that helps loan applicants.

It was clear that the credit assessment criteria could have been relaxed to enable a wider group of tenants to access loans, but PfP and ASG considered that there were significant problems associated with this. For not only would it be imprudent and unfair to lend to people with an adverse credit history, any downplaying of the affordability criteria could result in people with limited financial means taking on unmanageable debt burdens. It was also seen that extending the opportunity to people with adverse rent history to borrow could put people in further financial difficulties.

Even though overall most people (over 90 per cent) considered that the application process was fair, two difficulties with the process were mentioned by more than one person.

- First, there was some concern about the time loans took to be processed; around three weeks seemed to be the norm. For some, the delay did not matter as they felt that it was just part of a process that they had to accept, but others did say that they found such a delay unnecessary. A critical element of residents' demand for credit can be the speed of access to cash. Some people felt that the demand from residents will always be constrained while there is a delay of weeks between application and supply, as for some the need for a loan will have a level of urgency.
- Secondly, two or three people felt that the process could be quite bureaucratic with paperwork demanded for a first loan, being asked for all over again for a second. It was felt that the need for such an amount of paperwork could be counterproductive.

4.2 Impact on beneficiaries and their families

There was ample evidence from the interviews that the loans project was having a significant positive impact in the lives of its beneficiaries. People who had felt trapped into using high cost lenders now felt that they had another more affordable option; and those who had feared credit in the past, and not borrowed, now felt they had a secure and trustworthy credit provider who could assist them smooth out the peaks and troughs of the household budget.

People explained how they borrowed to purchase the kinds of items, which when there is a real need for them and cash is not available are typically purchased with high-cost credit. One person said that the loan has made a significant difference to her health as now she has a bed she can sleep better in and a stove she can cook on. One person used the loan to go on holiday, which otherwise she would have been unable to afford. All beneficiaries spoke of how the PfP project had improved their quality of life. Typical comments included,

> *"It's the cost of everyday living and bringing up the children. The children would not have had a Christmas if they [PfP] had not given me a loan. It was for the Christmas presents which I could not have afforded without the loan"*
>
> *"If they would not have helped me, I would not have got the garden sorted out, for the children, but also for the house. We have to maintain our own gardens and I could not afford it".*

Whether it was for a bed for a child, a washing machine or basic home and garden improvements, all beneficiaries said that they would not have been able to afford such items without the loan from PfP. Most interviewees said that PfP had now become their sole source of credit and they no longer used or wanted to use high cost lenders. Typical comments were;

> *"I have now paid off Wonga and I am interested only in a decent loan company. I only borrow now from PfP. I will go for a third loan".*

> *"I don't borrow money from anywhere else. I used to borrow from the Money Shop but it is very expensive. I was stupid to have loans like that. I would never go back to Money Shop".*

All interviewees reported that they found the loans project to be helpful or very helpful to them and to their families. There seemed to be no doubt in the mind of any of the beneficiaries of the importance and the value of the project. All those who had used high cost lenders in the past, said that they had either stopped or intended to stop once their current loan was repaid.

Loan default and the manageability of repayments

Most beneficiaries interviewed were repaying loans according to the loan agreement and there was no evidence that the loans project was contributing to problem over-indebtedness.

One series of interviews focused on people who had been noted by PfP as in arrears or who had payment difficulties. They were all people who had needed to contact PfP about missed payments after having being allocated the loan.

However, all the people interviewed said that these were either temporary problems with cash flow, the receipt of welfare benefit payments or technical difficulties with direct debits, setting the dates of repayment or changing bank accounts.

They all confirmed that they were able to maintain their payments according to the repayment plan. There were no cases where people had abandoned their payments altogether and no borrower had been referred to a debt adviser by PfP. There were some examples of people seeking advice from money advice agencies about welfare benefits problems but this had not been arranged by PfP.

In all cases where people were interviewed about default, difficulties had been solved and people were repaying according to the original or a revised repayment plan. All beneficiaries spoke highly of the way in which PfP staff endeavoured to help them when a payment was missed. All interviewees said they were very satisfied with the way the staff had managed their case and solved the problem. They all said that PfP staff had been very helpful.

As has been noted already in this report, the support offered by PfP staff in undertaking an income and expenditure analysis and calculating how much they could afford to borrow was highly valued. This was seen as enabling borrowers to only take out loans that would not be detrimental to the household budget and that would be repayable. There was no evidence of any detriment to household budgets through the level of repayments set by PfP.

Despite the fact that the researchers did not speak to anyone with long-term structural problems on repayment or to anyone who had to be referred for professional debt advice, there is incidence of arrears on the ASG loan portfolio at PfP. Arrears for the project overall are on average 6.7 per cent. The impact of the arrears is to reduce the sustainability of the project, and also potentially to adversely affect the credit records of the residents concerned, with implications for access to and the cost of credit in the future. The level of arrears may be a function of higher loan values, but this still requires more detailed investigation, so that corrective action can be taken.

4.3 Benefits for the Affinity Sutton Group

From the interviews and focus groups there emerged four key benefits of the PfP loans project for ASG. Of course, the extent of these benefits is linked to the volume of loans made among the resident population; the greater the loan volume, the greater would be the benefits to ASG. The four key benefits that were identified in the study are:

Improving the quality of life for residents

There was ample evidence from personal testimonies in interviews that the residents who have used the loans project have benefitted significantly and they were all ready to confirm that loans project had made a substantial impact on the quality of the their lives and those of their families.

They explained how the loan scheme has provided beds for children, a stove to cook on, carpets for flats lacking adequate floor covering and gardening and redecorating for pensioners and people suffering from disabilities. It was clear that the loans project was responding to some of the most basic needs of residents and had the potential to respond to the needs of many more people if they were fully aware of its benefits.

The loans project is clearly enabling many residents to avoid resorting to high-cost credit and to control and avoid over-indebtedness. Many of those interviewed said that the loans project had contributed to their well-being and quality of family life. As one resident put it,

> *"My loan finishes next month, it was a life saver to me, I was made bankrupt four or five years ago so could not get any loans. I was desperate. I had nothing for the kids for Christmas. PfP were brilliant".*

Although most participants in the focus groups had not benefited directly from the project, they were in agreement that there were residents with need of affordable credit facilities. They were able to explain how an affordable loan option would assist residents to obtain the kinds of items they need, without having to do without or resort to high-cost credit. Most of the focus group attendees felt that it was to ASG's credit that it was seeking to help residents improve their quality of life through the loans project.

Reducing the risk of residents getting into financial difficulty

Residents told researchers that they appreciated the support PfP gave them in analysing their income and expenditure and in applying for a loan that was within their means of repayment. The rigour of the credit assessment processes undertaken by PfP was seen as important in ensuring that residents did not accrue problem debt through taking on loans they could not afford. Most applicants that had been denied loans also appreciated the fact that PfP would not lend them money that they could not afford to repay.

In the focus groups, participants considered that the affordable loans project reduced the risk of residents of getting into financial difficulty, because it seemed that the PfP offer was built upon:

- Advice being implicit in the application process and
- A responsible lending policy and
- A structured and affordable repayment arrangement.

The result was that most people interviewed were repaying loans successfully and considered that they were now at lower risk of getting into financial difficulties given that they had access to an affordable loans project.

Those that had got into difficulty with loans and had missed payments tended to do so because of temporary cash flow problems or difficulties with their direct debit arrangements. They were overwhelmingly appreciative of the support PfP gave them in coping with a temporary difficulty and, sometimes, in rescheduling their debt. PfP staff worked hard to support residents to resolve temporary arrear situations, and in all cases interviewed, borrowers had been able to regularise their situation. There were no examples of people having to be referred for professional debt advice, even though PfP had arrangements with a debt advice agency if its services were required.

Many of the people who had used high-cost credit previously said that they now regarded the PfP project as their cost-effective, assessable and convenient alternative source of credit. Most people said that they did not want to resort to high-cost borrowing in the future.

Even those who were maintaining their usage of high cost credit, mostly paying down past debts, access to the PfP loan meant that they did not get into deeper financial difficulty.

Contributing to the financial inclusion strategy

ASG is concerned to offer a range of financial solutions to its residents to ensure their financial stability and resilience in difficult times.

Traditionally, ASG endeavoured to point its residents in the direction of local credit unions, and indeed some of the people interviewed were already members of credit unions particularly in the North East and London. Even though in some cases, the links with local credit unions was very positive, the problem was that all credit unions did not offer the same level or quality of service and such local links could not result in ASG being able to ensure a consistent and accessible national offer to residents.

The partnership arrangement with PfP was seen to be complementary to the local credit union links as it was able to offer one standard service to the entire resident population. It this made a significant contribution to creating a coherent financial inclusion strategy applicable to all tenants. The PfP also required less commitment than to a credit union, e.g. no membership or savings requirement, and was therefore a potentially more attractive loan product for some residents (this was borne out in some interviews). Telephone access to the loans project was also seen as important for some residents, particularly those who are unable to attend a credit union office due to work commitments or to difficulties associated with limited mobility attributable to disability.

In 2013, however, ASG entered into a partnership arrangement with Leeds City Credit Union (LCCU), whose services are now available to all residents nationally. As with PfP, access to LCCU can be over the telephone, and, in addition, online through the internet.

ASG will continue to promote both offers to its residents, and the two services are not regarded as in competition but rather as complementary. In fact, in the focus groups, even though people welcomed the LCCU arrangement, participants stressed that it was important to keep both offers available to enable residents to choose whichever service suits them best. The PfP loans project has clearly added to financial inclusion at ASG, and provides a service that is valued by residents, the users of which are keen for it to continue.

Increasing residents' positive regard for ASG

There was good evidence from the interviews with resident beneficiaries that the loans project had increased their positive regard of Affinity Sutton. They were clear that it was a significant benefit for then and that it has contributed to their sense of financial security. In general, interviewees said that the loans project made them feel more positive about ASG as a housing provider. Typical comments included:

> *"I cannot say anything bad about it. People are struggling and no other housing association offers this and it should continue".*
>
> *"Affinity Sutton is a marvellous organisation and this loans project has made me feel more highly about them".*
>
> *"Affinity Sutton are trying to do a lot to help their tenants, they are doing their best".*

Even those interviewees who expressed a variety of reservations about ASG as a housing provider, mostly referring to what they felt were inadequacies in the repairs service, still felt very highly about the PfP loans project. One woman, who had a number of criticisms about the ASG repairs service, was clear, that in the case of the loans project, "*ASG have at least done one thing right".*

Some loan beneficiaries said that they had been communicating messages about the project to friends and family. But however, given the fact that there are relatively few beneficiaries at this stage, the impact of word-of-mouth communication is limited. There is a clear need to more effectively inform the social and community networks among the tenant population

4.4 Learning from experience

Throughout the loans project, the RUFI team endeavoured to explore issues and themes arising from the interviews and the focus groups, as well as from the statistical review of project data. This analysis was recorded in the series of four interim reports aimed at assisting ASG and PfP to learn from the experience of delivering the loans project and to make improvements in project promotion and delivery in the interests of the national ASG resident population. In this final report, five of these key themes are noted.

Marketing and project awareness

Given the low take-up on the loans project, marketing, promotion and the level of awareness of the loans project among the resident population were constant issues requiring ongoing reflection and action. In general, ASG acknowledged that there had been insufficient marketing effort to drive resident awareness of the project.

However, the solution was not just more leaflets, magazine articles and material on the website. The research study identified strongly that word-of-mouth is a necessary form of promotion and communication in low-income communities, as it generates trust and confidence in the provider as well as in the product. In general, people in low-income communities learn of financial products and services through the social and community networks of which they are a part.

The study identified a range of opportunities for ASG to consider as part of a more strategic approach to marketing the loan product among residents nationally. These included,

- Word-of-mouth – more creative and effective use of residents' groups and housing officers to communicate messages about the project directly to residents
- Local advertising – the reinforcement of national advertising through posters and leaflets in housing offices and ASG community locations. This advertising needs to strongly identify with the kinds of good and services that residents could purchase with a loan. It may be possible to give real-life examples of the impact of the loans project in the lives of residents. Some of the stories from current beneficiaries would demonstrate how an affordable loan can make a significant difference to the quality of life of residents
- Direct mailing or door drops to provide an introduction to the loans project; but these need to be followed up with other media and word-of-mouth communications.
- Ensuring that all new residents know of the possibility of obtaining an instant home-starter loan. These are available to new residents if they can demonstrate they have housing benefit in place for their new property. PfP also has a white goods loans scheme in collaboration with Co-operative Electrical, which could be attractive to new residents having to furnish a new ASG property.
- ASG branding – it would be worth reconsidering clearly marketing the loans project as an ASG initiative, over and above the inclusion of the logo. There was clear evidence from interview the link with the housing provider was valued by residents.
- ASG website – there were calls from residents in the focus groups for the loans project to be much more visible on the ASG website - in tandem with other promotions, e.g. mailings, the loans project could be mentioned on the ASG home page from time-to-time
- Social media – there were calls from residents for greater use of Facebook and Twitter to advertise and promote the loans project. These media channels were seen as especially important for younger residents
- Digital technology - the loans project could be promoted through email and SMS effectively throughout the national resident population, at least to people with online and mobile technology facilities
- Serving the unbanked – there are still about ten per cent of ASG residents who do not have a transactional bank account[3] and who depend on the Post Office Card Account. These residents might satisfy other criteria, but their lack of access to a

[3] ASG Super Survey 2014

bank account denies them a loan. There could be an opportunity for ASG and PfP to consider ways to enable or facilitate unbanked residents to open a bank account.

Engaging resident representatives

In order to ensure that knowledge and information about the loans project permeates the resident population, resident groups and representatives need to be fully aware of the benefits and operation of the project and of their role in communicating its value to tenants. This point was strongly stressed in focus groups and resident representatives present expressed a keen interest in becoming more involved in the promotion of the project.

In some areas, volunteer loans project champions who would be able to communicate project information through local social and community networks could be recruited. These resident champions would require training in the operations of the loans project but then could become local points of access for information about the project.

If linked to ASG community hubs and other points of contact, local loans project champions could offer information sessions on the project and signpost people to PfP.

The role of housing officers

In the focus groups and interviews, residents felt that housing officers could have a greater role in the promotion of the loans project. If this were to be the case, they would need to be fully briefed on the value and operations of the loans project and be ready to refer to its benefits in day to day communication with residents.

There is a particular role for housing officers at the time of resident sign-up and induction to a new tenancy. The interview process for new residents could include a simple financial assessment of the ability of the person to finance the furnishing and equipping of their new property. This is a critical time when people often need to find substantial sums for white goods and other household items, and the temptation can be to resort to high credit options.

Even though it is recognised that residents at sign-up are mostly interested in obtaining the key of a new property, housing officers could make sure that all new residents know about the loans project and are aware of its benefits. If an instant loan for new property furnishing was available, this would significantly strengthen the appeal of the loans project to new tenants.

Efficiency of credit administration systems

Even though the vast majority of people using the loans project had no problems with the application and administrative processes, the issue of efficiency and speed of access to loans did constantly surface. The fact that most people did not complain does not mean it was not an issue of some importance. People in need of a loan, who have very few options other than high-cost credit, are willing to wait and accept delays as just part of the process.

However, for others, the fact that the turnaround time was at least three weeks did matter. When people have pressing needs, the speed of access to cash can be a critical issue. And at least some residents felt that the slow turnaround from application to loan payment resulted in some people choosing quicker if more expensive options.

It does seem clear that if the loans project is to expanded significantly throughout the resident population, faster and more efficient credit administration systems will need to be adopted. In fact, there are indications that new processes are to be introduced by PfP in the near future with the introduction of electronic signature facilities and greater online loan application and assessment facilities. A review of the amount of paperwork required to be sent in the post by residents to PfP would be particularly beneficial.

5. Case studies

The following case studies arose out of the interviews with residents and illustrate the significance of the loans project in the lives of tenants.

The case studies include three applicants who were declined loans by PfP. They demonstrate the importance of loans officers having a positive and non-judgemental attitude to borrowers, particularly when they run into difficulties.

Beneficiary A

Supporting an ex-soldier to furnish a new tenancy

Beneficiary A was a young man who recounted how he had found himself homeless after being discharged from the Army. Leaving the Army had coincided with a divorce, which resulted in the loss of his marital home. Fortunately, he had an offer of a flat from ASG, which he readily accepted.

However he had no financial means of furnishing the flat. He had no credit history and thought he could not get a loan from anywhere at anything like a reasonable rate. He wanted at all costs to avoid having to go to high-cost lenders. He was delighted when he found out that he would be able to borrow through the PfP project and with the £500 loan bought a number of basic items for his new property. The PfP loans project eased his path in taking on the new tenancy.

Beneficiary B

Enabling a widow pay for a headstone for her husband's grave

Beneficiary B was woman of a certain age whose husband died on the very day she took up her new ASG tenancy. She and her husband had been looking forward to moving into their new home, when some time before he was taken into hospital. On the day she was moving in to the new property, her husband sadly passed away.

She described how traumatic the loss of her husband was at this time, made worse as she had to struggle to find the money to pay for the funeral as well as equip the new property. She managed to pay for the funeral but she lacked the funds for a headstone. She was very grateful that PfP was able to help by providing a loan to cover its cost.

Subsequently to receiving the loan she described how she had difficulties with the initial repayments due to problems with regularising her bank account and with waiting for money to come through from her husband's estate. Not only was she grateful for the loan, she was very grateful for the support the PfP staff had given her through this difficult period.

Beneficiary C

Helping a resident purchase a cooker without recourse to high-cost credit

Beneficiary C was a middle-aged woman on income support and a carer's premium. She generally found it hard to make ends meet and had a long history of using home credit and payday loans to meet the cost of essential items. She explained for example how she had used a payday loan to purchase a washing machine.

She valued the fact that home credit and payday loans were accessible, immediate and local, and available when she was desperate, but she often struggled to make the repayments. Added to the difficulties, as she paid in cash, she sometimes felt the home credit collector did not credit her book and so was unsure how much she really owed.

Beneficiary C was still paying off past debts through a debt management plan organised through the Citizens Advice Bureau, but after an affordability check, PfP agreed to make her a loan for a cooker, as her old one was no longer serviceable. She was delighted and she is now committed to migrating entirely away from high cost credit providers, once her past debt is paid. She said that PfP will now be her only source of credit.

Beneficiary D

Sanctioned borrowed grateful for PfP understanding and support

Beneficiary D was a man in his fifties on income support who had taken out a PfP loan to refurbish his flat. He had had experience of borrowing from high cost lenders in the past but now only used the PfP loans project and his local credit union in Lewisham which he had also been introduced to through the ASG.

However, after he had taken out the PfP loan, he had been hospitalised because of a back problem. On coming out of hospital and despite his doctor and the hospital consultants stating in writing that he was unfit for work and that he found it difficult to move, the DWP assessors had judged him fit for work and sanctioned his income support payments accordingly. He said that his benefit payments had been reduced by 50 per cent.

He contacted PfP because he was unable to pay the agreed loan repayment and was delighted that the PfP staff had handled his case so well. He said that they did not judge him at all and just arranged for him to pay a lower amount but over a longer period. The PfP were able to ensure his financial situation was not made worse though having to meet now unaffordable repayments. He is now committed to only using the PfP project and his local credit union for further credit needs.

Declined Applicant A

Borrower grateful that PfP assisted her to avoid over-indebtedness

Decline applicant was a woman on welfare benefits (disability) who had already successfully repaid two PfP loans when she was declined a third.

In the interview, she did not at first recognise being declined a loan as she felt she had only been put on hold while she repaid her existing loan to PfP and an existing outstanding loan to a payday lender. Her benefit payment had reduced at the time and money was tight.

As often happens in low-income families, she had allowed her son to take out a payday loan from a money shop in her name, which she was paying but which was being reimbursed to her by her son. This payday loan had come to light when she applied for her third loan. It was this additional financial commitment that resulted in PfP informing her that they could not make a loan while the payday loan was still outstanding. She understood this perfectly and without hesitation agreed to reapply once the son's loan had been sorted out and repaid. This she did and was eventually granted an additional loan for £800 several months later, making her total debt to PfP around £1,300.

She highly valued being able to access loans through PfP and was not at all worried about being declined the loan. She said she never missed a payment and did not want to get into debt. She felt that PfP "were on her side" when they refused the loan and were only helping her to cope on a tight household budget.

She spoke highly of PfP and thought the staff were very helpful and polite. She said the loans from PfP had helped her greatly. She was not in good health and with the loans she had been able to sort out the garden and buy a new bed.

She said she would not know what to do if the PfP loans project was no longer available. She was adamant that she did not want to return to borrowing from high-cost lenders which she had done in the past. She strongly felt ASG should promote the project more widely to assist many more low-income residents.

Declined Applicant B

Why some applicants with a good payment record are still declined a loan

This declined applicant was a woman who normally worked full time work in a nursery, although she had been recently on reduced hours. As in the case of declined applicant A, she had already successfully applied for a loan which she had been repaying normally. She had borrowed a first loan of £1,000 which she was repaying without any arrears or default. She applied for a second top-up loan of £1,000 before the first loan was fully repaid and it was this second application that was declined.

She said that PfP told her that she was declined a loan because she had arrears on her council tax payments, the knowledge of which surfaced during the application process. She had had some financial problems due to her reduction in hours and this had resulted in her struggling to make ends meet. PfP had already reduced her repayments on her first loan from around £90 to £50 per month to assist her in managing the household budget.

She was very disappointed that she was not granted the second loan because of the council tax arrears given that she had never defaulted upon her loan repayments. She was of the strong opinion that PfP should look to a person's PfP repayment history in deciding a loan rather than taking into account arrears with other companies or agencies. She felt that she could afford the loan at the present repayment rate, which could just have been extended into the future through the top-up. The fact that she was paying without default, she said proved she would continue to pay in the same way.

However, even though disappointed, she said she still valued the loans project and was very appreciative of being able to access the first loan, which had been a great help. She was hoping to go onto normal hours again soon and undoubtedly would consider applying for a loan again in the future. She said that the fact that she had been refused a loan in no way led her to consider borrowing from other credit providers. She had little experience of credit in the past, apart from a bank loan many years before, and was keen particularly to avoid high-cost providers. She was attracted to the PfP offer because it was at a loan interest rate which she described as "fantastic".

6. Future development

The messages received from residents through the research study confirmed that the objectives that ASG set for the loans project are being met, and that it is highly valued by those residents who have taken out loans.

However, take-up by residents is low and loan volumes are significantly below those originally envisaged at the start of the project. However, as confirmed by current borrowers and residents in focus groups, there is potential for the loans project to expand and to serve many more people throughout the ASG population. Residents were clear that the PfP loan offer was a product fit for purpose and personal testimonies demonstrated how PFP loans had assisted people to avoid high-cost credit, achieve financial stability and improve their quality of life and that of their families.

The challenge for the future is to market and promote the loans project in a way that it will reach and appeal to many more people. The finding of the study is that this will involve much more direct personal face-to-face and word of mouth communication. In low income communities, information, awareness and understanding of financial services is more often than not transmitted through social and community networks. ASG and PfP need to find ways to involve residents and housing officers in informing those networks in order to reach all residents, including hard-to-reach groups and individuals.

There may be a temptation to see the solution to the effective marketing and promotion of the loans project in terms of greater use of digital technology (this is generally a cheaper approach). Certainly, as argued in this report, emails, SMS and use of social media have a significant role to play. But the research team is sceptical that this can be the only solution. In the communities that ASG serves a great deal of store is placed on verbal word-of-mouth communication, and this cannot be ignored. In the focus groups there was a constant call from residents that there was need for more personal contact with ASG housing officers and office staff.

Effective marketing depends, however, on having a product that residents want and value. It will be important for PfP to modernise its service delivery to ensure a speedy and efficient credit administration and assessment process. In the experience of the research team, people on low incomes are attracted to credit that can be provided swiftly as sometimes loans are the purchase of ‘emergency’ items. Delays of three or four weeks before loan disbursement, for whatever reasons, are a disincentive for some residents to use the project. Consideration needs to be given to how the overall process from enquiry to receipt of funds could be speeded up, given comments from residents and the understanding of the speed with which high cost competitors can deliver.

Maximising use of the loans project by residents, and increasing loan volumes, relates to perhaps the most significant challenge facing the future of the loans project. At the moment, the PfP loans project is a subsidised loans service to ASG residents. Subsidies from ASG ensure that PfP can deliver a project at a rate of interest on loans that is lower than that charged to PfP’s own social housing tenants. The question of the sustainability of this arrangement arose throughout the research study period.

In assessing future sustainability, issues of efficiencies, volumes and price have to be taken into account. Economic assessment suggests that the loans are not priced appropriately at 29.9 per cent to meet the costs of serving this group of residents, even if greater volumes were to be achieved. The focus group exercise looking at the costs of credit suggested that residents would accept as reasonable an interest rate in line with the PfP representative rate (64.9 per cent). It is to be noted that even a 64.9 per cent interest rate on loans is still highly competitive in the sub-prime credit market.

In addition to efficiencies, volumes and price, the other major factor impacting on project sustainability is the level of bad debt. There are indications that the arrears ratio on the ASG loans portfolio is increasing. If so, this needs effective management as bad debt threatens the economic viability of any loans business.

However, the PfP loans project now enters a new phase of development. All interviewees said they hoped that the PfP loans project offer would continue into the future as it offered an important source of credit to people who often had little option outside the high-cost credit market. But now ASG residents will have a choice – the PfP loans project or the financial services offered by Leeds City Credit Union.

In the last round of ten interviews, all interviewees welcomed the introduction of choice through the LCCU offer; but they stressed that this should not result in the closure of the PfP option. Rather they hoped that the two offers would complement one another and give residents real choice in the credit market, where previously they had so little.

As the PfP loans project and LCCU financial services are both marketed and promoted to residents, consideration and evaluation will need to be undertaken to assess the ways in which the two offers are differentiated but also complementary.

It is hoped that the findings of this research study and the lessons learnt from the operation and delivery of the PfP loans project to date will be able to inform the maximisation of benefit of both the PfP and LCCU offers to residents in the future. In order to ensure viable and sustainable success, the combined offer will need to form part of an overall ASG strategic programme of outreach, marketing and promotion which engages the interest and commitment of residents and housing officers to directly communicate the benefits of the two financial services to residents on the ground in local communities.