The Family Loan and Saving Scheme

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Foreword

My interest in credit unions is both personal and professional. Personally, I sit on the board of Enterprise Credit Union, in Merseyside and I am privileged to see the important work the sector does in helping those who are financially vulnerable. Professionally, I work for the England Illegal Money Lending Team (IMLT) and am only too aware of the impact that a lack of financial resilience has on people's susceptibilities to loan sharks.

This report highlights the importance of loans and savings to people on low incomes, and the positive impact the Family Loan and Saving Scheme has had on both. But more than that, it introduces people to the credit union, and helps them improve their credit rating, and go on to access other credit union products.

A Centre for Social Justice Report (CSJ 2022) estimated that 1.08 million people in England are using loan sharks. Two thirds of the victims the IMLT helped in 2022 were parents. So that means more than 700,000 parents in England currently paying extreme amounts to unscrupulous criminals, possibly under threat of violence or other harm. Products like the Family Loan and Saving Scheme help prevent this in two ways; firstly by providing people with access to affordable credit, and secondly by encouraging a savings habit to improve future financial resilience. This report quite rightly emphasises the importance of the savings element, and it is so encouraging to see that so many of the people using this scheme went from never saving to intending on continuing saving after the scheme had ended. People often use loan sharks for Christmas, birthdays and school uniform so the scheme is reaching the right people in the right way to help stop this from happening.

I hope this report helps allay some of the concerns raised by money advisers and encourages other credit unions to look at introducing this product. Thank you to Pennine Community Credit Union and Swoboda for demonstrating the value of this scheme and others like it.

Cath Wohlers
LIAISE Manager
England Illegal Money Lending Team

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This report is based on a research study undertaken collaboratively by Pennine Community Credit Union and the Swoboda Research Centre.

Pennine Community Credit Union is an ethical, not for profit financial co–operative serving the local community with saving and loan facilities. It serves people who live or work in most of Lancashire and all of Cumbria and the tenants and staff of a number of local social housing providers.

The Swoboda Research Centre is a not-for-profit research organisation incorporated in Dublin. Its mission is to undertake high quality research, to lead on ideas and innovations, and to explore tested solutions for credit unions in Ireland and Great Britain. It works in collaboration with Liverpool John Moores University.

Executive Summary

Family Loan and Saving Scheme

Pennine Community Credit Union (PCCU) introduced, in May 2019, the Family Loan and Saving Scheme (FL&SS).

FL&SS supports access to affordable Family Loan and to a linked savings account. It can appeal to anyone in any socio-economic group, but it particularly suits people on a low income or who are financially vulnerable[1]. Beneficiaries must save regularly as they borrow, even if only a small amount.

Family Loans

Family Loans are small value loans. The standard first loan for everyone is £500, repaid over a 50-week period and charged at 42.6 per cent APR. This interest rate may sound high but for small value loans is relatively low. The total cost of credit over the year would be £91.95 or less than £2 per week.

The application process is designed to be simple, straightforward, and fast, all-important aspects of the delivery of credit in the low-income market. Assessing loan affordability is central to the application process. It assesses if a loan applicant has sufficient disposable income to cover repayments without detriment to the household budget.

It has an easy method of saving and loan repayment through deduction from Child Benefit[2] deposits into the credit union. FL&SS account holders agree to the Child Benefit deposit but retain ultimate control over the arrangement.

The PCCU study

This report presents the findings of the 2021 study into its performance and its beneficiary outcomes. At the time of the study, over 3,000 PCCU members were beneficiaries of the product.

The study was based on a beneficiary survey (500 participants) and interviews with stakeholders, including money advisors.

Typical FL&SS account holders are women (93 per cent), private tenants (57 per cent), aged between 25 and 34 (47 per cent).

Saving is an essential aspect of FL&SS

FL&SS facilitates a savings habit among low-income borrowers who have traditionally never saved nor been able to save.

89 per cent of respondents did not save regularly before obtaining a Family Loan. 77 per cent did not have a savings account before joining PCCU. 91 percent agreed they planned to continue saving after repaying their loan of which 54 per cent strongly agreed.

[1] The Financial Conduct Authority (FCA) define a vulnerable consumer as someone who, due to their personal circumstances, is especially susceptible to harm. Four drivers of vulnerability: low resilience, low capability, suffering a negative life event, an ongoing health condition.

[2] Child Benefit is a tax-free payment from the Government that is intended to help parents cope with the costs associated with bringing up children up to the age of 16 years or 20 years of age if in approved training or education.

Accessing credit

The survey revealed the main reasons for applying for a Family Loan. There were birthdays, Christmas, or special occasions (54 per cent), furniture, home decoration and improvements (43 per cent) and clothing such as school uniform (38 per cent).

50 per cent of members stated that if they had been refused a loan this would have significantly affected their overall wellbeing. 41 per cent stated they would have gone without the item or service they use the money for if they had not been able to borrow from PCCU. 87 per cent stated they had not continued to borrow from other lenders.

FL&SS member satisfaction

98 per cent strongly agreed that FL&SS had helped them significantly. 99.6 per cent of respondents agreed that they would recommend FL&SS to a friend. 98 per cent were happy with the service provided by PCCU.

98 per cent agreed that the savings and loan repayments were affordable.

82 per cent were comfortable using Child Benefit as a repayment method. Only 3 per cent said that they were uncomfortable, but still said that FL&SS had helped them significantly. The remainder had no view to record.

Some statistics

At the time of writing (March 2023), PCCU has over 7,088 members (7,896 in total since inception) using FL&SS with a total outstanding borrowing of £6.4m and amalgamated savings of £1.3m. The product makes up 59 per cent of PCCU's total loan book and has grown at an annual of 55 per cent through 2021 and 2022.

The optional Christmas Savings account helped over 700 FL&SS members save £119,870 during 2022, averaging £162 per member, clearly helping families to cope with the most expensive time of the year.

In 2023 PCCU paid a dividend of two per cent on all savings accounts and delivered a loan rebate of 15 per cent on all loans made.

In March 2023, the overall arrears rate on all PCCU loans over 3 months was 3.7 per cent, arrears on Family Loans were within tolerances at 4.1 per cent.

Organisational learning

Since its inception, FL&SS has been under constant review and development.

For the effective member-focused delivery of FL&SS, the following key elements essential: - strategic focus, putting members first, transparent marketing, savings promotion, clear application process, rigorous affordability assessment, declines management, member control, flexibility and top-ups, member progression and support, and monitoring evaluation and review.

99.6% of respondents agreed that they would recommend FL&SS to a friend.

1. Introduction

To support families living on low incomes and often struggling to manage the household budget, Pennine Community Credit Union (PCCU) introduced, in May 2019, the Family Loan and Saving Scheme (FL&SS).

Credit use is often an essential part of the harsh reality of living on a low income. It supports cash flow and is often the only way of spreading the cost of major, and often essential, items (Ellison et al. 2011). The problem is that given poor or zero access to affordable credit, financially vulnerable individuals can often turn to high-cost options with all the detriments that this involves.

Financial well-being, however, is not supported by access to affordable credit alone. Of equal significance is saving through accessible savings accounts. For saving has greater value than stored income alone, it has positive social and psychological outcomes through building greater financial security and stability over time (Sherraden, 1991). But saving on a low-income is not so easy when there are so many competing demands all around.

FL&SS is a combined credit and savings product which supports access to affordable credit and a savings account. It can appeal to anyone in any socio-economic group, but it particularly suits of stigmatisation in the application process. It is a product designed for the low-income market, but it is not a product for the poor. It is open to everyone in receipt of Child Benefit and indeed can be and is used by more moderate-income families as a convenient and regular source of credit.

The loan account is linked to a savings account. Beneficiaries must save regularly as they borrow, even if only a small amount, the advantages of which have been well documented elsewhere (Fairbanking Foundation, 2017).

By any measure, FL&SS has been a notable success, attracting new members and facilitating growth in overall credit union savings and loan balances. However, to explore the impact of FL&SS in detail, PCCU decided to undertake a systematic study of its performance and its beneficiary outcomes. This report documents and presents the findings of this study. At the time of the study, over 3,000 PCCU members were beneficiaries of the product.

However, there was another important reason that PCCU considered it important to undertake the study. Similar Child Benefit linked products are increasingly common throughout the British credit union sector and a small number of money advisors had raised concerns in print as to the impact of such products on consumers. They questioned the robustness of affordability checks, given that repayments were automatically being deducted from welfare benefits deposits, and they felt that there was a danger that some over-stretched families could be left struggling to meet basic household costs. Some also expressed an unease that Child Benefit, a benefit targeted to support the upbringing of children, could be used to fund loans on items unrelated to children. Further concerns related to situations in which borrowers' financial circumstances deteriorated and whether they would have the right or the practical knowledge to reduce deductions from Child Benefit or even cancel the deposit of Child Benefit into the credit union altogether.

PCCU recognised that these concerns were real, and that they deserved to be addressed. They are explored in depth in this report in relation to the findings of the study.

2. The Family Loan & Saving Scheme (FL&SS)

PCCU's FL&SS is a combined loan and savings product designed to provide an affordable line of credit for families and, through a default mechanism, build and encourage a saving habit. It is open to all current and new credit union members who are in receipt of Child Benefit and is conditional on any loan being repaid by deduction from this benefit lodged directly from HM Treasury & Customs (HMRC) into the member's credit union account.

Child Benefit is a tax-free[3] payment from the government that is intended to help parents cope with the costs associated with bringing up children[4] up to the age of 16 years or 20 years of age if in approved training or education.

£24 is paid weekly for the eldest or only child, and £15.90 for all subsequent children[5]. There is no limit to the number of children that can be claimed for. Payments are usually made into members' accounts on Mondays or Tuesdays and are paid either weekly or every four weeks, depending on circumstances.

Family Loans

Family Loans are small value loans, which, even though open to all, best suit people on low incomes or who are financially vulnerable. The standard first loan for everyone is £500, repaid over a 50-week period and charged at 42.6 per cent APR. This interest rate may sound high to some but for small value loans, the cost of credit is relatively low. The total cost of credit over the year would be £91.95 or less than £2 per week. Many social lenders charge significantly more.

[3] If the beneficiary or his or her partner has an income of over £50,000, he or she may have to pay the High-Income Child Benefit Charge. This is not an issue at PCCU as no FL&SS beneficiary has anywhere near that income
[4] Cf https://www.gov.uk/child-benefit
[5] www.gov.uk/child-benefit/what-youll-get

Loan Provider	Amount borrowed	Representative APR	Repayment terms	Monthly repayments	Total amount to pay	Cost of credit
PCCU	£500	42.6% APR	12 months	£50.24	£602.75	£102.75
Likely loans (Finio Loans)	£500	Representative 39.9% APR	12 months	£49.75	£597.00	£97.00
Fair For You	£500	Representative 64.8% APR	12 months	£54.13	£649.56	£149.56
Scotcash	£500	Representative 174.5% APR	12 months	£67.31	£807.74	£307.74
Conduit	£500	Representative 217.5% APR	12 months	£71.90	£877.80	£377.80
Fair Finance	£500	Representative 153% APR	12 months	£75.38	£935	£405 + £30 admin
Morses	£500	Representative 342.94% APR	12 months	£81.25	£975.00	£475.00
The One Stop Money Shop	£500	Representative 295.60% APR	12 months	£81.25	£975.00	£475.00

Table 1: Home credit and social finance provider credit costs over a 12-month term (from company websites, [April 2023])

The following lenders provide calculations on a £500 loan over a 6-month term. Those with an * shows the repayments split into 6 equal monthly amounts.

Loan Provider	Amount borrowed	Representative APR	Repayment terms	Monthly repayments	Total amount to pay	Cost of credit
PCCU	£500	42.6% APR	6 months	£92.30	£553.79	£53.79
Moneyline	£500	Representative 169% APR	6 months	£113.79	£682.88	£182.88
Fast Loan UK	£500	Representative 766.18% APR	6 months	£136.42	£818.50	£318.50
Moneyboat	£500	Representative 939.5% APR	6 months	£147.26*	£883.60	£383.60
Cash ASAP	£500	Representative 1276% APR	6 months	£147.66*	£886.01	£386.01
Lending Stream	£500	Representative 1333% APR	6 months	£161.10	£966.53	£466.53
Quidmarket	£500	Representative 1297.6% APR	6 months	£165.68	£994.08	£494.08
Loan Pig	£500	Representative 1261% APR	6 months	£166.67	£1,000.00	£500.00

Table 2: Home credit and social finance provider credit costs over a 6-month term (from company websites, [April 2023])

Of those lenders who provided £500 loans only 'Likely Loans' (Finio Loans) had a lower rate of interest compared to PCCU. In England, Scotland and Wales, there is a cap on the amount of interest that credit unions can charge on their loans of 3 per cent a month or 42.6 per cent APR. 'Likely Loans' (Finio Loans) calculation included interest charged at a representative rate of 39.9 per cent APR. That means that at least 51 per cent of borrowers will receive a rate that is the same as, or lower than, this advertised rate. It also means that 49 per cent of applicants can be offered a higher rate of interest.

'Likley loans' (Finio loans) state on their website:

"The rate and / or term you are offered is dependent on your individual circumstances. Rates from 20% APR to maximum 69.9% APR"

PCCU Family Loan repayments are aligned to how members receive their Child Benefit and, on the £500 loan, are just £12 per week or £48 every four weeks.

Alongside making loan repayments, account holders are required to deposit a minimum of £1 per week into a credit union savings account. This amount can be increased according to the wishes of the member. Any excess Child Benefit, remaining after loan repayment and savings deposits, is transferred via BACS to the account holders' bank account on the same day the Child Benefit is received by PCCU. Members who are unbanked are able to withdraw this in cash.

Increasing the loan balance

All first Family Loans are for a maximum of £500. However, members are eligible to apply to increase their loan balance after twelve weekly or three four-weekly loan repayments to a maximum value of £750 plus the value of their long-term savings account balance. So, a member who had £100 in savings would be able to increase the Family Loan balance to £850. At this point, he or she would receive £850 less the amount outstanding on the loan balance.

On a £750 loan, the loan repayment increases from £12 to £15 per week or from £48 to £60 every four weeks. If the member had additional savings against which the loan was increased, the period of repayment would be longer. However, the weekly or four-weekly repayment value does not increase, unless the member requests to repay more.

After a further twelve weekly repayments or three four-weekly repayments, members are again eligible to apply to increase their loan balance to a maximum of £1000, and as previously, plus the value of their long-term savings account balance. For a £1000 loan, the loan repayment increases from £15 to £19 per week or £60 to £76 every four weeks. Clearly, as previously, the loan repayment period would be longer if the loan amount was increased due to the value of additional savings. But the loan repayment would remain the same.

Once reaching the maximum £1000 loan balance, top-up applications are accepted when the twelve-weekly repayment, or three four-weekly repayments have been received. A top-up allows the borrower to take their loan balance back up to the maximum value of £1,000 plus their savings account balance, ensuring their loan balance net of savings remains at the maximum of £1,000.

The credit union allows top-ups because it understands that its members occasionally have unexpected costs, such as a broken washing machine or a car repair, a school trip or a special occasion. The facility of top-ups enables members to cope with these situations without having to seek out sources of credit from other higher-cost lenders, increasing their overall outgoings.

However, in addition to top-ups, members who have reached the maximum £1000 Family Loan balance are eligible to apply for a standard credit union loan, according to the regular loan policies and procedures of the credit union. As noted below, these are slightly different to those related to the Family Loan. If the member is successful in accessing a standard credit union loan, the minimum saving element requirement increases from £1 to £5 per week and the loan repayment value would increase accordingly. Standard loan borrowers can also apply for a top-up but only after six months of regular repayments.

The high street banks' personal unsecured loans start at a minimum £1000 loan value.

PCCU charges the same interest rates for all members, this is not based on individual circumstances.

Loan Provider	Amount borrowed	Representative APR	Repayment terms	Monthly repayments	Total amount to pay	Cost of credit
PCCU	£1000	42.6% APR	12 months	£100.47	£1205.53	£205.53
Santander	£1000	Representative 14.5% APR	12 months	£89.61	£1075.32	£75.32
HSBC	£1000	Representative 21.9% APR	12 months	£92.62	£1111.43	£111.43
Natwest	£1000	Representative 27.9% APR	12 months	£94.98	£1139.76	£139.76
Halifax	£1000	Representative 29.7% APR	12 months	£95.67	£1148.04	£148.04

Table 3: Bank credit costs over a 12-month term (from company websites, [April 2023])

Loan application process

The application process is designed to be simple, straightforward, and fast, all-important aspects of the delivery of credit in the low-income market.

Applicants must be members of PCCU, but this forms part of the application process for people new to the credit union and is also simple and speedy.

The initial application is made electronically via PCCU's website[6]. Here applicants provide standard information including details of their receipt of Child Benefit.

Once an application has been made, the applicant is directed to PCCU's Nivo app[7], accessed on a mobile phone. The user friendly Nivo app includes bank standard technology which allows members to transact with PCCU in a fast, convenient, and easy manner. The Nivo platform allows members to complete forms and transmit any required information easily. It also enables an applicant to sign the loan agreement electronically.

As part of the application process, the applicant is required to redirect payment of their Child Benefit to a PCCU account by completing a standard letter to HMRC. The member's Child Benefit is then deposited in his or her PCCU account until HMRC is instructed otherwise.

A loan affordability assessment is always undertaken to ensure that the member has the resources to repay the Family Loan. Once affordability is ascertained, the applicant receives the loan via BACS into a bank account usually within two hours of the loan agreement being signed. If the application is unsuccessful, the member is informed of the reason and encouraged to still join and save with the credit union so that, if the member wished, the application could be reassessed in the future.

Affordability assessment

Assessing loan affordability is central to the application process. It is a key element of member care for it ensures that the borrower, given other financial commitments including debt burdens, has sufficient disposable income to cover the loan repayments without detriment to the household budget. This is as essential for someone taking out a Family Loan as it is for anyone else taking out a standard loan in the credit union.

Credit unions are not normally subject to consumer credit regulation and instead has specific governing legislation. Nevertheless, PCCU considers that it is best practice to design its products, policies, and procedures in line with relevant consumer credit rules. These include ensuring a reasonable assessment of creditworthiness, not increasing credit beyond what a person can afford, and basing the assessment on sufficient information about income, expenditure, and other financial commitments (CONC 2022).

[6] www.pccu.co.uk/family-loan
[7] https://www.nivohub.com/

However, the Financial Conduct Authority (FCA) Consumer Credit Sourcebook (CONC)[8] recognises the importance of the proportionality of assessment.

"The CONC requirement is to make a reasonable assessment of creditworthiness on the basis of sufficient information, obtained from the borrower where appropriate and from a credit reference agency where necessary. We do not stipulate when it may be necessary to make a CRA check, or what this should comprise, or how lenders should use the information. This is for firms to decide in each individual case."

This is supported by Experian (2013), a credit reference agency, when it states that:

"Overall decisions should be based on risk, indebtedness, and current/future affordability. The rigour of the assessment should be consistent with the credit exposure."

PCCU has designed an affordability assessment for Family Loans to suit the demographic of the borrowers and to be proportional to the level of credit exposure. The affordability check, carried out for all applications, involves calculating disposable income. This is based on total income after tax, including Child Benefit, and less all housing and household costs and other expenditure. It also entails an assessment of current credit commitments and balances and in addition asks about insolvency and county court judgements. In this way, PCCU can build up a clear picture of the ability of the potential borrower to use Child Benefit to fund loan repayments without any consequent detriment to the household budget.

Bank statements and credit checks

For Family Loans, unlike for its standard loans, the credit union does not ask for bank statements and, in most cases, does not carry out a formal credit check with a credit reference agency. The reason is that, for many borrowers, these often present an unnecessary barrier to accessing a low-value loan and, in many cases, add little to the information required to make a considered decision.

PCCU regularly meets members of the community who are unbanked or underbanked. Asking these applicants to provide bank statements is often a barrier that they cannot overcome, causing embarrassment and distress, whilst, even in cases when they can provide them, the statements have very little information to help PCCU make an informed loan decision. As PCCU's member solution team highlighted,

"The members do not necessarily have bank accounts, but if they do it's often benefits in, cash out, you don't see the exact pattern of what they pay in gas and electricity prepayment meters. They arrange that kind of expenditure themselves. You wouldn't get the true picture of their circumstances even with an open banking report."

PCCU has also decided not to conduct credit reference agency searches on Family Loan applicants. Again, the reason is that such a requirement can present an unnecessary barrier to credit access. The only exception is when the person indicates they are currently in or considering one of the insolvency options. PCCU will not lend to anyone who has an active debt management plan, debt relief order, individual voluntary arrangement, or bankruptcy.

It was the Woolard Review (FCA 2021) that highlighted how people with thin, impaired or no credit reference files find themselves excluded from the affordable credit market and thus often have little choice but to access high-cost credit.

[8] https://www.handbook.fca.org.uk/handbook/CONC/1/

"Access may be limited for those who find it hard to evidence their creditworthiness. This includes those with poor credit histories who may have been in financial difficulty or those with thin or no credit files, which can include younger people, those who are self-employed, or are new to the UK." (FCA 2021).

Many of the applicants for a Family Loan have no credit history and there are those who are not even on the electoral role. They are people who would often use high-cost alternative lenders who do not regularly report to credit reference agencies. PCCU considers that there is no point in running credit checks in these cases as not only will they reveal little useful information but could have a negative impact by leaving a footprint on their credit file.

Of course, there are many applicants who will have impaired credit files. People will have histories of poor loan repayments, defaults on bills and even County Court judgements against them. This is the demographic that the credit union is engaged with; people who have struggled with finances with evident results, and then are naturally wary of any talk of a credit check. PCCU believes that a credit reference check will not reveal much that is not already known and would just result in an even greater number of loan declines and in entrenching high-cost credit use among such financially vulnerable individuals. The people who need support the most would be denied help.

PCCU has taken another approach, given its knowledge of its membership and its embeddedness in the community. Given the low-value nature of the loan product, it considers itself able, based on the information it can gather directly from the applicants, to make a reasonable assessment of creditworthiness. As one of PCCU's member solution team explained:

"A credit check is like a safety blanket where you get a snapshot of that member's information at that moment. On this product, because it is a lower value loan and the perceived risk attached, we do not believe it's essential. We gather information from the application and from the conversations with members, and we can ascertain a reasonable pattern of their income and expenditure."

However, once the Family Loan has been awarded to a member, PCCU does share data on loan repayment with credit reference agencies. Data on keeping to repayment schedules and settling loan accounts are fed into the credit reference system to improve the member's credit score in the future. PCCU sees this as an important element in supporting the financial inclusion and capability of the members.

For those Family Loan borrowers who progress to apply for a standard loan, the creditworthiness assessment includes a credit check and the requirement to provide the most recent three months bank statements or permit the use of open banking.

Borrower control

The key characteristic of FL&SS and its system of loan repayment is a deduction from Child Benefit. Beneficiaries of Child Benefit have the right to have their benefit paid into any account of their choice. Just like having it paid into a standard bank account, here it is paid into the credit union account.

Like credit union payroll schemes, where employees make deposits into savings and loan repayments before they receive their salary, here Child Benefit beneficiaries make deposits into savings and loan repayments before they receive the remainder of their benefit payment. This provides a repayment and saving method that occurs automatically prior to the account holder receiving their income (wages or benefit). This ensures trouble free deposits and repayments for the borrower and reduces the perceived risk for the lender.

Like payroll members, Child Benefit account holders remain fully in charge of their source of income and can redirect the benefit payment to another account, in a bank or building society, at any time. As a member of PCCU's member solution team explained:

"It's their Child Benefit and we will not stop them moving it to another account. Obviously, if the loan has been approved on the condition that that Child Benefit is to be received into their account here, we will explain that to them."

FL&SS members are provided with the bank account details of where their Child Benefit is being lodged by HMRC. They can ask for these details at any time. With this information, the member can contact the Child Benefit office at HMRC to change the bank account to which the benefit is sent.

However, the PCCU Family Loan agreement states that repayment must be through the deposit of Child Benefit into the credit union, redirecting this benefit without the agreement of the credit union would breach the terms of their loan agreement.

But there are some cases where FL&SS members do move their Child Benefit payment to another bank account with the approval and agreement of the credit union. For various financial management reasons, a member may prefer to have the benefit paid into a bank account and repay the loan through a standing order. If there is a genuine reason to change the receiving account, PCCU has no problem with it. The problem arises if this change is undertaken without the knowledge of the credit union and loan repayments cease. This would be picked up by the member solutions team[9] and, if not resolved, would compromise the member's opportunity to obtain a PCCU loan in the future.

Loan decline

Access to a Family Loan is not automatic – there is a process to follow. PCCU declines FL&SS applicants if they do not live or work within PCCU's common bond (and therefore ineligible for membership), if they are below eighteen years of age, if they are unable to provide adequate ID or if they cannot prove that they are in receipt of Child Benefit.

They are also declined if they fail to satisfy PCCU's affordability assessment. This is a key element of the process. The credit union cannot approve a loan if the repayment would result in financial detriment to the borrower and his or her family.

If an applicant is declined the member is informed of the reason during the application process, via email or through PCCU's Nivo app which includes bank standard technology. Members are also encouraged to contact the branches for further information if required.

If a member is refused due to failing the affordability assessment, he or she is encouraged to review their finances and to join and save with the credit union if possible.

Prior to conducting this study, data on Family Loan declines and more specifically on the reasons for the loan decline were not recorded sufficiently due to systems limitations. Improvements have been made to ensure this data is collected effectively as detailed later in this report.

3. The study – method and scope

The research study to explore the impact of FL&SS and assess its performance and beneficiary outcomes took from September 2021 to November 2022. It was both quantitative and qualitative and was based on a systematic enquiry involving FL&SS account holders, PCCU staff members, management teams in four credit unions offering a similar product, and several money and debt advisors who were familiar with the product. Quantitative data on the product and its beneficiaries was gained from the credit union's accounting software.

At the time of the study, PCCU had circa 3000 FL&SS account holders with £2.5m in total outstanding lending. This made up 41 per cent of PCCU's total loan book.

[9] Often called the credit control team in other credit unions.

A 46-question online survey was constructed to provide data on a range of aspects relating to FL&SS. This survey was sent to all current FL&SS account holders through the secure Nivo app and via email. Account holders who communicated with staff via the telephone were told about the survey and asked to complete it. The offer of a draw prize of £100 was designed to maximise engagement. Account holders were informed that the data would be anonymised, not linked to their accounts, or have any bearing on future loan decisions. In total there were 500 completed surveys, which represented a 17 per cent return of those contacted to complete the survey.

Interviews were conducted with members of management teams in four credit unions that offer a Child Benefit linked loan product. The aim was to document their experiences, explore their assessments of affordability and evaluate the impact this product has had on their membership and community. The aim was to learn from their experience in order to strengthen the PCCU product.

To strengthen the study, the research team reached out to members of the money and debt advice sector who had expressed an interest in Child Benefit linked credit union products. Contact was made through the Institute of Money Advisers (I.M.A), the only professional membership body for money advisers in England, Wales, and Northern Ireland.

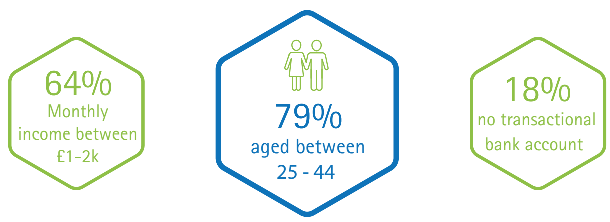
In addition, interviews were also carried out with staff from the Association of British Credit Unions Ltd and the Illegal Money Lending Team England.

4. FL&SS account holders

The survey revealed the key characteristics of FL&SS account holders. Not unexpectedly, 93 per cent of the 500 respondents were women, 59 per cent of whom were single parents. The majority, 71 per cent, had one or two children. As confirmed by PCCU staff, most account holders were women with children mostly having to cope with life on a limited household budget.

Only 11 per cent were under 25 years, which was interesting given the often assumption that it can be younger single-parent families who struggle. In fact, 79 per cent of respondents were aged between 25 to 44 years of age.

18 per cent said that they did not have a transactional bank account, which was high given the national percentage of the unbanked UK population at 4 per cent[10]. 64 per cent had an income between £1,000 - £2000 per calendar month before housing costs. 45 per cent had a monthly income of under £1,500, which is around £18k per annum, which is below the median total income estimates for Lancashire and Northwest England[11].



56 per cent of respondents lived in private rented accommodation. The survey did not capture housing costs but the fact that so many were living in private rented accommodation suggested that much of their income would be going on housing costs, resulting in increased strain on the household budget. 38 per cent of children in Lancashire and South Cumbria are living in poverty, the national average being 30 per cent[12]. Many of these children would be in families served by FL&SS.

[10] https://www.money.co.uk/guides/unbanked-what-its-like-not-to-have-a-bank-account
[11] https://www.lancashire.gov.uk/lancashire-insight/economy/income-earnings-and-benefits/
[12] https://www.healthierlsc.co.uk/population#:~:text=Deprivation,the%20national%20average%20is%2010.6%25

Reasons for taking out a Family Loan

The survey revealed the three main reasons given by respondents for applying for a Family Loan[13]. These were:

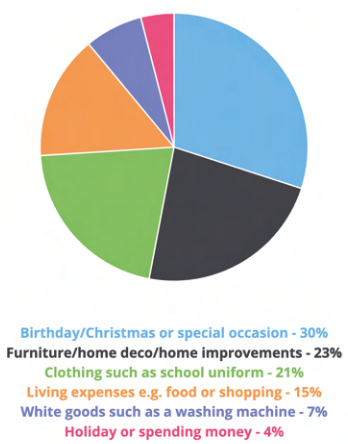
1. Birthday/ Christmas or special occasions (54 per cent)
2. Furniture/home decoration/improvements (43 per cent)
3. Clothing such as school uniform (38 per cent)

Analysis of the data held in PCCU's accounting system on every Family Loan issued since the product was launched in 2019 identified the most popular loan types as:

1. Household Goods/Furniture (25 per cent)
2. Christmas (22 per cent)
3. Home improvement/Repairs (17 per cent)

From the survey and data held on PCCU systems, it is evident that loans are being used for occasions or items that benefit the child or family environment.

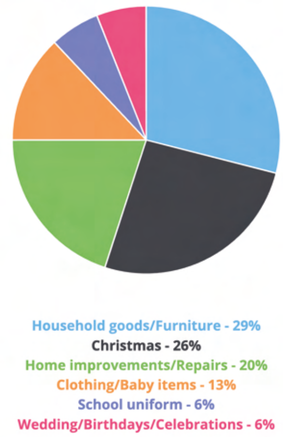
Family loan survey – What did you use the Family Loan funds to pay for



There is no evidence that loans are being used for other, non-child related purposes such as socialising or purely adult activities. They are being used to improve the context or housing conditions in which children are being raised within families.

16th April 2019 - 20th April 2022

Family loan survey – What did you use the Family Loan funds to pay for

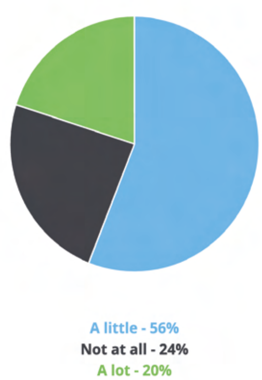


Reliance on Child Benefit

PCCU can only make loans to members who can visibly afford to repay. If a loan would result in detriment for the borrower, the credit union would have to decline the loan and offer some other alternative support or way forward. For this reason, it is important to know that borrowers would be able to manage their household expenses without the support of Child Benefit, if that was now going in part to repay a loan and make the required savings deposit.

80 per cent of survey respondents reported that they did not significantly depend on Child Benefit to balance their weekly budget. 24 per cent said that they did not depend on it all, and 56 per cent said that they only depended upon it a little. So, for these borrowers, Child Benefit was accepted as disposable income and could be used to repay a loan.

Prior to the Family Loan how much did you rely on Family Benefit to make ends meet week by week?



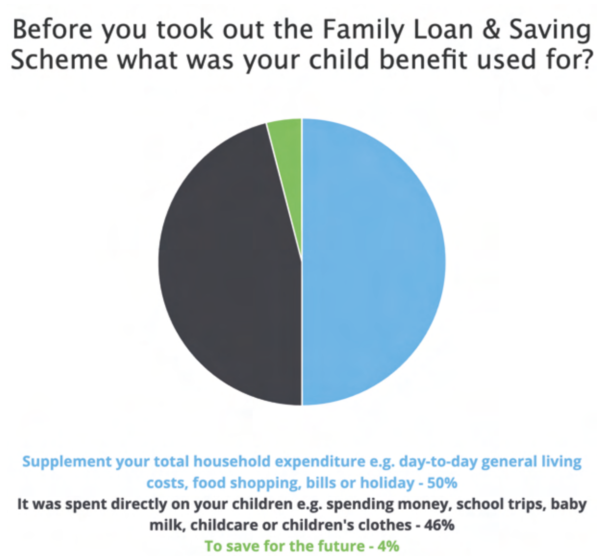
[13] Participants could choose more than one reason.

However, 20 per cent said that they relied on Child Benefit a lot to make ends meet. This was not unexpected. Problems in affording essential items and managing competing financial pressures are a constant reality for people living on extremely low incomes. But even so, when people are having to 'rob Peter to pay Paul' to get by, credit use is still entrenched in the way people manage the ups and downs of expenditure. The Money Advice and Pension Service (2022) found in its Adult Financial Wellbeing Survey that lower income households were twice as likely as medium/higher income households to say they often borrow for the everyday. Earlier Ellison et al (2011) found that almost seven in ten (69 per cent) low-income households were regular credit users.

Of course, for this 20 per cent of respondents (n 100), loan repayments would generally not have required the use of all their Child Benefit to repay a loan. As explained above, a £500 loan would be repaid with about 50 per cent of the benefit in the case of a borrower with just one child. But it is still clear that this group struggled to make ends meet but only eight out of the 100 borrowers felt uncomfortable using child benefit to remake repayments. 99 per cent of the group said that they were well informed before they took out the Family Loan and 98 per cent said that being refused the loan would have impacted negatively on their wellbeing. Even though financially stretched, they did manage to budget and repay through Child Benefit. 94 of the 100 said that they felt that the loan was affordable, 95 were confident that affordability was properly assessed, 98 said that they felt that the loan had helped them and 99 said that they were happy with the service provided by PCCU. Moreover, by accessing a FL&SS loan they were freed from having to access loans from high-cost providers.

As for the eight people who felt uncomfortable in using child benefit to make repayments, seven were women, four were single, one was working full-time, one part-time and the remaining six were on welfare benefits. Of the three with a partner (one preferred not to say if partnered or not), only one partner was working and part-time at that. Seven of the eight were in private rented accommodation, eight said that they never saved and seven had no savings whatsoever. Clearly, they were a group that had significant financial challenges. But when asked if they have been refused a Family Loan, how much would this have affected their overall wellbeing, five said a lot and three said a little. Six of the eight said that a Family Loan had helped them a lot, and only one person said that it had not helped. The reason for this was not recorded in the survey. Nobody said that they were unhappy with the service provided by PCCU.

The survey also asked account holders how they spent their Child Benefit prior to joining the FL&SS. There was a near equal split between supplementing household expenditure e.g., day-to-day general living costs, food shopping, bills, or holidays (46 per cent of respondents) and it being spent directly on children e.g., spending money, school trips, baby milk, childcare or children's clothes (43 per cent). Only a small number used the benefit to save for the future (3 per cent). This is in marked contrast with the experience of FL&SS account holders who now save regularly.



There was some correlation with a Child Poverty Action Group (CPAG) survey[14] in 2020 in which 1,000 parents receiving Child Benefit were surveyed. In the CPAG survey, 33 per cent of respondents spent their Child Benefit on food, an increase from 26 per cent in a similar survey in 2012. 28 per cent of respondents stated they spent it on day-to-day living expenses, an increase of two per cent in 2012. The report also found that there had been a decrease in spending Child Benefit on clothing/shoes for children, 23 per cent in 2020 down from 51 per cent in 2012. These figures probably indicate increasing strains on the household budget.

[14] see https://cpag.org.uk/news-blogs/news-listings/low-income-parents-relying-child-benefit-household-basics

An alternative to high-cost credit

The high-cost credit sector is made up of several types of non-standard products including short-term loans (including payday loans), home-collected credit (now reduced since the pandemic), pawnbroking, rent-to-own stores (RTO), buy now pay later (BNPL), buyback offers (although not actually a loan), guarantor and logbook loans. Added to this could be bank overdrafts and credit cards which can result in greater financial detriment in low-income households than non-standard credit (Ellison et al. 2011).

Access to these types of loans and financial products is often valued by consumers, as they give access to credit relatively quickly. The downside is that the long-term cost of borrowing at high interest rates may not be fully considered and can lead to financial detriment. The FCA has highlighted how high-cost credit users are often the most financially vulnerable and at risk of significant over-indebtedness (FCA, 2020).

In a survey conducted of high-cost credit users by PwC (2022) on behalf of the FCA, over a quarter of participants (29 per cent) placed payday loan repayments in their top three priorities for outgoings each week or month. In fact, 43 per cent had missed a payment on other commitments (utility bills, rent/mortgage, council tax, other borrowing) to make sure they could meet their payday loan repayments. In interviews undertaken in this PwC study borrowers explained how they had to juggle their finances each week to make sure they could make loan repayments. Even though very few missed repayments, some had to take out additional loans to make ends meet.

The PwC study highlights the stresses and strains placed on individuals and families by borrowing at high interest rates. Repayment of such loans can undermine the household budget to such an extent that other essential priorities are forsaken. The high-cost credit users as described in the PwC report often share similar characteristics to FL&SS account members. Many are low-income families, who have likely been refused credit elsewhere such as at a bank and are often thus excluded from less expensive lines of credit. This study aligns with many others which demonstrate how many people on low incomes have little access to credit apart from high-cost providers, but how the use of such credit is detrimental to the household budget and their financial health and well-being. Davies et al (2019) in a study conducted at the University of Bristol found that there was solid quantitative evidence that borrowers from low-income households are more likely to use high-cost credit. Of course, that is if they can access credit at all.

The survey revealed the types of lenders FL&SS account holders had used in the past five years; these were:

- 42 per cent from friends and family,
- 28 per cent had used buy now pay later lenders, such as Clearpay or Klarna,
- 26 per cent had had a Department of Work & Pensions (DWP, another government department) loan grant e.g., social fund or budgeting loan,
- 26 per cent had used catalogues,
- 15 per cent has used a credit card,
- 12 per cent had used high-cost loan companies,
- 11 per cent had used a regulated doorstep lender,
- 8 per cent had used rent to own companies,
- 1 per cent had used an unregulated lender or a loan shark,
- 0.6 per cent had borrowed from a bank.

In all the responses, a bank overdraft was not mentioned, undoubtedly because of the lack of access to or limited usage of bank accounts. In fact, even though the numbers were low, twice as many respondents said that they had previously used a loan shark to access credit than they did a high street bank. On average FL&SS members said that they had borrowed from two different providers in the last 5 years.

Significantly borrowing from family and friends remained for many the main source of credit, which can be one indicator of the lack of access to affordable credit options. Young (2022) researched this in a 2017/2019 UK study into the role of financial and non-financial relational support provided by family, friends, and acquaintances, in means-tested benefit claimant households in coping with the income volatility of household budgets.

Young found that such relationship networks can play a crucial role in offering support and help but that this support can be limited. Stigma, reciprocal obligations, and the limited resources of relational networks are liable to result in complications. Reciprocal obligations have even the potential to damage family relationships. Repayment can be erratic and family members who lend are themselves often financially vulnerable, with the loan made adding an increasing strain on their finances. Borrowing from family and friends is not always the best idea if it results in resentment and emotional stress. A 2022 survey in the US by CreditCards.com, so with some contextual differences to Great Britain, found that 59 percent of those who lent money to family and friends say something went terribly wrong.[15]

The Family Loan enables access to affordable credit for people who have had little access to affordable credit previously or whose main access has either been dependent on family and friends or high-cost providers. Not only does it aim to break the cycle of account holder's dependence on high-cost credit, but also aims to offer borrowers the autonomy and independence that access to affordable options can provide.

In the PCCU survey 87 per cent of respondents stated they had not borrowed from other lenders since obtaining a Family Loan.

5. Promoting saving

"One of the most misunderstood concepts of poverty alleviation is the relationship between income, wealth, and savings. The focus of many traditional microfinance programs has been credit-oriented: loans will provide poor people with a means to generate more income. Very little mention is made of wealth, or the difference between what you earn and what you save.

I remember some sage advice given to me many years ago: 'It's not what you earn that is important, it is what you save.' It is both heretical and hypocritical to talk of poverty eradication without incorporating savings accumulation into the poverty alleviation strategy. The Doctrine of Micro Savings is the only cornerstone upon which poverty can truly be eradicated" (Richardson 2000).

This quotation by Richardson (2000) of the World Council of Credit Unions points to an important reality in building the financial health and resilience of people on low incomes. Access to affordable credit enables them to smooth out the ups and downs of income and expenditure and avoid dependence on high-cost providers. But more important is encouraging people to save.

As Sherraden (1991) would say, income maintains consumption, but savings change the way people feel about themselves and interact with the world. Savings are much more significant than being just stored income, they generate positive psychological impacts and feelings of control, resilience, and empowerment.

It is the primary objective of a credit union, in the words of the Credit Unions Act 1974, to promote thrift through savings. This, PCCU believes, is more important to financial wellbeing than access to credit alone.

Save as you borrow

FL&SS is essentially a "save as you borrow" financial product, in which loans are linked to savings accounts, and it is this link with saving that sets credit unions apart from other credit providers.

"Save as you borrow" means that borrowers make one regular weekly or monthly deposit into the credit union, a proportion of which repays the loan, and an agreed set amount goes automatically into saving. These savings are not normally accessible until the loan is repaid, except in cases where the loan balance is lower than the savings balance, then borrowers can usually withdraw that proportion of savings which exceeds the loan balance.

"Save as you borrow" has been the traditional approach to credit union lending since the beginning, on the grounds that default savings are the best way to build a member's net worth and financial stability. Nowadays, however, some credit unions are flexible and offer loan accounts not linked to savings accounts. FL&SS retains the traditional approach and access to a Family Loan is conditional on the member saving a proportion of their Child Benefit alongside the loan repayment.

[15] https://www.creditcards.com/statistics/lending-moey-poll/

However, the saving requirement is just £1 per week. This is significantly less in comparison with other PCCU loan products, where borrowers are required to save £5 a week or £20 a month depending on their repayment schedule. The reason for the lower percentage of saving required in relation to Family Loans is to ensure that low-income borrowers are not put under any unnecessary financial strain. This low saving requirement also ensures all additional saving is made consciously but, that said, borrowers are encouraged to save as much as they can reasonably afford.

PCCU has a strong focus on promoting savings, but it is particularly concerned to build a savings habit among low-income borrowers who have traditionally never saved nor been able to save. Building such a savings habit, which can go beyond the term of the loan, can be transformative to their longer-term financial circumstances. In 2017, a study undertaken by the Fair Banking Foundation (FBF) confirmed the positive social and psychological impact of the credit union "save as you borrow" model and how it contributes to the financial well-being of borrowers.

From the survey of the 500 FL&SS account holders, it was revealed that:

- 89 per cent did not save regularly before obtaining a Family Loan.
- 77 per cent did not have a savings account to deposit into before joining PCCU.
- 91 per cent agreed they planned to continue saving after repaying their Family Loan of which 54 per cent strongly agreed.

The FL&SS saving requirement has cultivated a saving habit among many members who had very little or no history of saving prior to the Family Loan.

As one FL&SS member wrote in the survey:

"I find it good that as well as loan repayments, we are also made to save at the same time. Whereas if it's made an optional choice most of us would certainly be slack in saving or not do any at all."

This was confirmed by another member in the same survey:

"Taking amounts out of my child benefit each month, allows me to not worry about paying it back and also there is a savings account that will one day be useful."

Sometimes within the money and debt advice sector comments are made to the effect that the "save and borrow" model may not always be in the interests of the borrower, for if they paid all their available funds off the loan, rather than some going into savings, then the loan would be repaid earlier with a consequent reduction of loan interest payable. FBF (2017) tackled this issue in its report by acknowledging that the model does result in a small cost to the member but that this is far outweighed by the sense of achievement and stability that a savings buffer affords. In the 79 per cent of participants in the FBF study thought that it was worth paying the extra amount of interest.

If PCCU were to remove the £1 minimum saving deposit and increase the repayments by the same amount, this would save the member £8.54 over the initial £500 loan term. But to do this would result in members not building a savings habit and having a minimum saving balance of £50 at the end of the loan period, that they can continue to add to or withdraw from when their loan is repaid.

Commitment savings

The FL&SS "Save as you borrow" model is a form of commitment savings account in which savings are locked in for the period of the repayment of the loan. It can be imagined as a form of piggy bank which cannot be broken open until the target of repaying the loan is achieved or until the loan balance falls below the savings balance, when the member can withdraw the difference.

Saving is not easy on a low and intermittent income. In fact, it is very hard as there are always calls on funds for day-to-day expenses leaving often little scope for investing them in savings. Commitment savings accounts are binding arrangements that people voluntarily enter to reach specific goals that may otherwise be difficult to achieve. They have a long history in low-income communities in Britain, as they do internationally (J-PAL 2021), from informal savings clubs in local shops, savings stamps, Christmas hampers and even asking friends or family to "mind" money that is being saved for a specific purpose. In one way or another, they all address the behavioural and social obstacles to saving by providing a means of forcing people to save long term according to their own pre-determined amount and agreed objectives.

As one of the PCCU member solutions team explained:

"We wouldn't allow them to withdraw their savings. They are aware of that every step of the way. It's detailed in their loan agreement. If we allowed withdrawals, it would happen often on the Family Loans."

Another PCCU team member expanded on this, highlighting that in the early days of saving, if only £1 per week, the accumulated savings would not be very large:

"I don't think that sort of that small value amount of savings is going to make a massive difference to that member's circumstances at that moment. Whereas the successful building up of a savings habit way outweighs the downside of members not being able to withdraw that small pot of money."

However, the member survey did reveal the concern of a small number of members with financial worries or who fell into financial difficulties after taking out a Family Loan. One borrower wrote:

"During the pandemic, families have struggled and when I asked about taking some of my savings out, my request was declined. It needs to be looked into so that there is more support for families struggling with financial worries."

This concern was echoed by a debt advisor in a major national charity when interviewed by the research team. This advisor believed that members should be able to access their savings and said:

"When they have needed access to savings, we have had difficulty getting access to those savings. This is the problem, gaining access to the savings that they need either to pay their rent, council tax or utility bills. It is a battle to try and get the credit union to stop putting money in the savings account."

This comment of the debt advisor betrays a misunderstanding of the nature of FL&SS as a product that is based on an element of commitment savings. PCCU takes the view that locked-in, commitment savings are in the long-term interest of the member, and it would be disadvantageous all around to eliminate them.

"Building a habit of saving regularly is a major component of financial wellbeing by increasing financial security and confidence and improving resilience for unexpected circumstances and life events" (MaPS 2021).

However, PCCU recognises that there are sometimes exceptional circumstances where a flexible approach to locked in savings is appropriate. As a member of the PCCU member solutions team noted in interview:

"We've had cases where members have needed to access their savings for emergency situations throughout the term of the loan. Case by case, if we believe that it is a genuine request, we will help them to access part of their savings."

PCCU's member solutions team works with members on an individual basis and is responsive to a request to withdraw or stop saving deposits for a period of time whilst the member's circumstances stabilise. The team would take this opportunity to discuss the member's financial circumstances and see if further support can be given. As a team member explained:

"In that moment of financial difficulties, if the member comes to us, we will try to help. If the member hasn't reached out to us, though, we may never have the conversation. We do have options and we do have ways that we can help but if they're not speaking to us, we can't help them through the situation."

It is for this reason that PCCU makes it clear to all FL&SS members that if they are facing pressing financial difficulties, it is important that they contact PCCU and speak to a member of the solutions team without delay.

A similar approach is taken in other credit unions offering a similar product. A staff member from another North-West credit union agreed with PCCU staff when she said in interview:

"We do explain that saving are locked. However, we do have the autonomy to override and if necessary, and in the best interest of the member, we will release some of the savings. We all must walk in someone else's shoes at some point, if we have someone who is in difficult times, we will still look after them."

However, it is important to note that 98 per cent of survey respondents stated that saving deposits and loan repayments were affordable.

Proportionally, the number of borrowers presenting with financial difficulties and seeing to withdraw or halt savings, is small. The vast majority are managing their accounts perfectly well.

The Money and Pensions Service (MaPS, 2021) in its UK Adult Financial Wellbeing Survey identified that about 1 in 7 (15 per cent) UK adults do not have savings of any kind and 11.5 million had less than £100 in savings. It also identified that this group of people, who do not save regularly, are more likely to feel anxious when it comes to thinking about finances and feel unconfident about managing money in general.

At the time of the PCCU study in 2021, FL&SS members had in the account linked to the loan, total savings of £384,878 and, on average had saved £111 per person. This figure is good evidence that commitment savings alongside borrowing have positive impacts on the lives of members.

Money management

- 81 per cent of survey respondents agreed that FL&SS helped them to budget and to save, of which 49 per cent strongly agreed.

The finding that FL&SS helped people to budget as well as to save is highly significant. Managing income and planning for both unexpected and expected costs is a skill that all people require to build financial security. But for those who are vulnerable, budgeting is even more important to reduce the impact of financial insecurity and hardship.

It is the access to an affordable loan alongside saving that underpins assisting members with budgeting. Loans can be of huge assistance when budgeting, spreading the costs for something that could be unaffordable at the time into repayments that are affordable over time for the borrower.

"I wouldn't have done it otherwise. The Family Loan was towards gifts for the children at Christmas. So, for me the money is still being spent on the children" (FL&SS account holder)

Within the FL&SS application process and on an ongoing basis via communications with account holders, PCCU informs people of the range of accounts that can further assist with saving and budgeting, such as PCCU's Christmas Club account and Easy Access (instant access) account. Account holders are free to open these products with no further obligation to save any more than the £1 already detailed.

6. Borrower satisfaction

The survey response to FL&SS was overwhelmingly positive and it is evident that the product is not only appreciated by members but is making a significant contribution to the financial well-being of families.

High level of satisfaction

The survey revealed a high level of user satisfaction with the FL&SS product, the application and onboarding process and with the interaction with staff.

- 99 per cent of the 500 survey respondents agreed that they were happy with the product, of which 77 per cent said that they strongly agreed.

Only one per cent said they neither agreed nor disagreed. Nobody said that they were unhappy with the FL&SS product.

Written comments in the survey from respondents were overwhelmingly positive. As one person wrote:

"This is a fantastic scheme for helping out families who have money worries, I am now able to take my little boy on holiday but also, I have the opportunity to save for Christmas with the saving schemes."

Another respondent explained:

"PCCU has helped me in many ways. I've not had to ruin my credit rating by applying for expensive payday loans. It's helped me to save and made me feel more positive about my handling of money."

Application process

- 99 per cent of the 500 survey respondents agreed that they were happy with the product, of which 77 per cent said that they strongly agreed.
- 99 per cent said they were provided with enough information regarding FL&SS

A borrower wrote:

"Getting a loan in any situation is embarrassing and hard, but PCCU was easy to follow, and the staff made me feel comfortable."

And another:

"All the staff I have spoken to have been super helpful and so polite kind and understanding."

How FL&SS has helped

- 98 per cent agreed that the product had helped them a lot of which 76 per cent strongly agreed.
- 99 per cent agreed that they would recommend FL&SS to a friend of which 80 per cent strongly agreed.

Here are the comments of several respondents:

"PCCU has been a life saver to me and my family and has helped in times in which I would have struggled. Such a great lending company which I have recommended to a lot of family and friends."

"It's a brilliant service I'm a single parent who has recently moved into a new property with nothing without PCCU I would not have carpets etc."

"Everything has been fantastic and easy. Taken straight out of my Child Benefits to pay back so I don't have to remember or to budget [to repay the loan]."

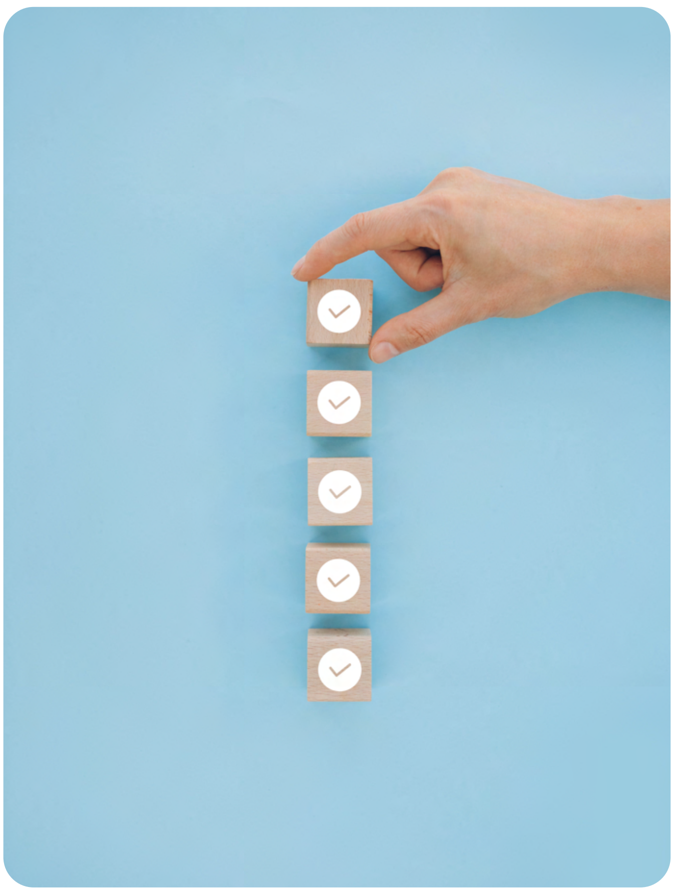
The attractiveness of FL&SS

Respondents were asked to choose three main aspects of the product that attracted them to open a FL&SS account. The survey results were:

- Affordable repayments – 55 per cent
- Repayment directly through Child Benefit - 43 per cent
- Recommended by a friend/family member or colleague - 32 per cent.
- Good interest rates - 18 per cent

Affordability and repayment through Child Benefit topped the list, followed by the recommendation of a family member or friend.

Only two per cent indicated that the reason for borrowing was because they had been turned down by another lender and only one per cent stated it was because of advertising.



On using Child Benefit to save and repay a loan

- 82 per cent were comfortable using Child Benefit as a repayment method

In fact, there were only fourteen people (3 per cent) of the 500 respondents who said that they were uncomfortable with using Child Benefit to save and repay a loan. The remaining 15 per cent had no view to record.

Although 14 is a small number, the credit union needs to ensure that not only are people happy to use Child Benefit but can afford to do so. In Chapter 4 above, in the section on reliance on Child Benefit, the situation of eight of the 14 was discussed in some detail. In addition to those eight, another six, who had not said that they relied on Child Benefit a lot to make ends meet, also felt uncomfortable using Child Benefit to repay the loan.

Clearly, when faced with hard choices in managing the household budget, some people decide to undertake courses of action which in normal circumstances they would not be too happy with. The need for a loan, and a desire to avoid high-cost options, leads to accepting a repayment method that they find acceptable if uncomfortable.

Interestingly, however, only two people within the entire sample of 500 (0.4 per cent) said that they would not recommend the product to a friend. So even though unhappy that they had to use Child Benefit, it seems that most of these members were still ready to use the product and recommend it to their friends. For probably the alternatives were seen as potentially causing even greater detriment to the household finances.

The fact that anyone felt uncomfortable, however, even in such small numbers, led PCCU to review its credit assessment procedures to ensure that all borrowers, without exception, are happy with and can manage the product.

7. Loan performance

FL&SS is a product aimed at serving and supporting some very financially vulnerable people with access to low-value loans and to savings accounts. It is not supported by external subsidies or grants, nor is it dependent on cross-subsidy within the credit union itself. It is a product that has to be commercially viable and make business sense for the credit union. This is fundamental to the nature of the product, otherwise it would be unsustainable in the long term and lack the capacity to reach large numbers of members.

Financial performance

At the time of writing, PCCU had over 7,088 members (7,896 in total since inception) using the FL&SS product with a total borrowing of £6.4m and amalgamated savings of £1.3m.

The product makes up 59 per cent of PCCU's total loan book[16] and grew at an annual of 55 per cent through 2021 and 2022. FL&SS growth contributed significantly to the overall growth in the credit union's loan book.

The success of FL&SS has added to the financial stability and strength of PCCU. Rather than being a cost to the credit union, it has enabled the credit union in 2023 to pay an increased dividend of two per cent on all savings accounts and deliver a loan rebate of 15 per cent on all loans made. This compares with a 1.5 per cent dividend and 10 per cent rebate in 2022. In 2023, £653k was given back to members in the dividend and loan interest rebate. In 2022, it was £340k.

Prior to March 2022, the dividend and loan rebate were deposited into a member's main savings account which meant that people with outstanding loan balances, greater than their savings balance, were unable to withdraw the amount deposited. A decision was taken in 2022 to allow the dividend and rebate to be withdrawn. This was designed to be an added bonus for FL&SS members.

Loan arrears

In comparison with arrears on PCCU's standard loan book, historically the Family Loan has had significantly lower levels of arrears. However, in March 2023, the level of arrears over 3 months was 4.1 per cent on the Family Loan compared with the rate on the overall loan book of 3.7 per cent. However, this remained below PCCU's appetite and WOCCU 's[17] benchmark of <5 per cent.

The key factor in reducing arrears is a deduction from Child Benefit. It is this automated nature of the product that gives reassurance both to the borrower and the credit union that repayments will be made according to the loan agreement. As in payroll deduction schemes with employers, deduction from welfare benefit reduces the risk of loan default all around (cf. Evans et al. 2023)

However, FL&SS members are always at liberty to change where their Child Benefit is deposited and move it away from the credit union, an action which would most probably result in greater arrears. In fact, this rarely happens. Once up and running, most people do not move the Child Benefit deposit from the credit union.

The member solutions teams believe that the stickability of Child Benefit deposits in the credit union is due to the strength of the relationship between members and the credit union and the high level of trust that is involved. Also, it is due from the fact that members know that they would not have access to as affordable credit elsewhere. As one member of the team said in interview:

"There is a lot of trust involved, and I think that is reflected from the members. I'm certain that the members that we give this product to know that they would not get that value of a loan with such competitive terms anywhere else."

But she was careful also to add:

"On repayment, the fact that it is a direct payment from Child Benefit certainly helps to keep the levels of arrears down."

[16] As of March 2023.
[17] World Council of Credit Unions, Madison, USA

Interestingly, in an Institute of Money Advisers' survey on Child Benefit related lending (Agboh-Davison 2021), debt advisers felt uneasy about this strong relationship between borrowers and the credit union, particularly when members are seeking debt advice.

"Many clients will hide the fact that they have a credit union loan, as they want to keep it out of any action that we take. We heard clients repeating the same mantra 'I don't want to reduce or stop payments to the CU as they have been good to me'".

But default does happen. Sometimes with Family Loans, it can turn out to be purely an administrative error, which can arise from the Child Benefit office not being notified of a change in circumstance, such as a child going into further full-time education after school, or an error from the DWP.

However, there are people who will not pay and may even have taken out a loan knowing that they would not repay. But arrears arise more often when circumstances change. Children may move to live with a different partner or carer, and then the borrower stops receiving Child Benefit, or a child turns eighteen. Arrears can also arise when people are facing severe financial hardship. They may then have contacted the Child Benefit Office to stop payment into the credit union and to request payment into a different bank account.

A small number may have multiple debts elsewhere and have decided to go for an Individual Voluntary Arrangement (IVA) or a Debt Relief Order (DRO). It is in relation to this situation that the debt advisor made the comment above.

Like many credit unions, PCCU deals with enquiries daily from organisations that are supporting members going through insolvency arrangements. For some members this will be the best course of action, and PCCU will work with these organisations. However, a number come from certain corporate insolvency practitioners which the credit union considers do not always have the member's best interest at heart. The information provided by these practitioners is often vague or incomplete. As one debt advisor interviewed highlighted, *"I see bad advice all the time. Unfortunately, not all debt advice is good debt advice."*

Credit control, debt recovery and forbearance

As with all lending, PCCU must have a systematic credit control and debt recovery system in relation to the Family Loans. The credit union has an overriding responsibility to its membership to do all in its power to recover loans made to borrowers. Even though loan default is low on the Family Loans, it does happen for a range of reasons as noted above.

A member of the PCCU member solutions team stressed in the interview that the key to credit control and debt recovery is communication. A great deal depends on the quality of conversation with borrowers in default and it is only through this personal engagement that borrowers in difficulty can be supported.

If borrowers miss a payment, the first action taken is to try and engage the borrower in a conversation, normally instigated by text message, phone call or through the Nivo app. There are no missed payment penalties added to the member's account. The main aim is to reach out and to find out the reason for the missed payment and, if it is not just an administrative error, what has caused the change in financial circumstances and what support can be offered. Key to this reaching out is tact, empathy and allowing the borrower to feel confident about sharing their financial circumstances.

With Family Loans, if financial difficulties arise, the loan can continue to be repaid by automatic deduction from Child Benefit and people by default do not miss payments. It is rare that people independently cancel the Child Benefit deposit into the credit union. If people are really facing hardship, this locked-in repayment mechanism can pose real problems, and, not without reason, this was one of the issues picked up by debt advisers in the interview. How does the credit union support a struggling borrower, who normally would have defaulted on a loan, but cannot do so now the deduction is automatic?

It must be recognised, and as evidenced in survey replies, that this is an uncommon state of affairs. Most borrowers have no problem repaying through Child Benefit, even if they are juggling their finances to make ends meet.

But it is true that the credit union must be particularly vigilant to spot signs of severe financial distress and through all its communication with members, encourage borrowers to contact the credit union as soon as financial difficulties occur.

If the borrower is facing a real financial difficulty, revealed through a missed payment, or reaching out for help, the solutions team will try to find a resolution to the problem. As one solutions team member said in interview:

"It all depends on the member's situation. [In times of hardship] we will look at reducing repayments. The level of reduction is completely dependent on the member. Sometimes we reduce by a couple of pounds and other times we might need to refund near all the Child Benefit to their bank."

One staff member added:

"We've had members who were experiencing significant mental health issues. Then we pause all action on their account. They aren't in the right state of mind to discuss their repayments with us. But this is 100 per cent dependent on the member providing us with that information".

The staff member noted that they were more likely to reduce payments than to freeze interest. It was explained that the credit union would be reluctant to freeze interest on a loan unless it received paperwork for a debt management plan or a debt relief order. However, when it is agreed to reduce repayments, if these are reduced to a very low level, the credit union would also freeze any interest charged on the loan. This would be to ensure that the repayments were decreasing the balance and not just paying off the interest accruing. With an IVA the team will only freeze the interest once it has been approved.

A senior staff member in another credit union also offering Child Benefit linked loans, stressed in interview how, despite the credit union's responsibility to recover a loan, it is essential to focus on the needs of any borrower in difficulty and who reaches out for help. He said:

"When things go wrong, we must be willing to support people and believe them when they say they need support with payments. You can't make it hard to not repay [by setting up the Child Benefit deposit], but then not be willing to reduce those payments when things go wrong for the member."

He continued:

"We can't say that we're responsible lenders, whilst being heavy-handed when people get into trouble, we need to be firm but fair. We need to recognise that people do need help, circumstances and life get in the way, relationships breakdown, people lose jobs or experience ill-health. Things happen, and people, even though they have every intention of repaying us, can't. We need to face up to that fact and get better at credit control and forbearance."

It is this sense of forbearance that underpins the PCCU approach to supporting FL&SS members in difficulty and struggling to meet their obligations. The credit union will reduce repayments, reschedule loans and grant payment holidays occasionally.

It will also desist in reporting struggling members to the credit reference agency so that their credit file would not be adversely affected.

When loans go into arrears, PCCU's member solutions team signpost to professional money and debt advice services. They also recommend a member contacts a not-for-profit advisor if they are starting an insolvency route. In interview they explained:

"If a member is really struggling and they're not able to meet the repayments with us at all and they've expressed that they've got a lot of other debt going on. Then at that point I would signpost them to get in contact with a relevant agency, like StepChange[18].

PCCU believes in maintaining strong relationships with its members and looks to support them once their financial circumstances improve, as they understand everyone may need access to an ethical savings account and affordable line of credit.

[18] StepChange UK is a debt charity offering free debt support and advice

But, as members of the solutions team stressed repeatedly, everything depends on the borrower in difficulty communicating and engaging with the credit union. When members stop paying and disappear, as with all other loans, the credit union would implement its full credit control and debt recovery process up to and including seeking a County Court judgement, an attachment to earnings order or an attachment of benefits order.

Support during the coronavirus pandemic

The Covid pandemic took place between March 2020 and March 2022, and the FL&SS study took place towards the end of that period. It was a challenging and tough time for everyone including many credit union members.

The PCCU member solutions team explained how they were available to support members who suffered a change in their finances due to the pandemic. They reported that, *"During COVID we offered payment holidays to members, due to the COVID situation, previously as a rule we didn't offer payment holidays."*

The FCA's Covid-19 panel survey found that *"19 per cent of adults who had any credit or loan product (excluding overdrafts) took out a payment deferral on a consumer credit product between March and October 2020"* (quoted in the Woolard Review FCA 2021).

At PCCU in the same period, 94 borrowers (1.7 per cent of all borrowers) took a payment holiday due to the pandemic, of which only 8 (0.02 per cent of all borrowers) were FL&SS members, all of whom resumed paying normally after the holiday.

The small number of PCCU members needing a payment holiday in comparison to the number identified by the FCA more generally is probably a good indicator of the rigour of the affordability assessment on loans.

8. Organisational learning

Since its inception in 2019, FL&SS has been under constant review and development. Though the delivery of the product, PCCU has been constantly monitoring and evaluating its performance and listening to feedback from staff members, other stakeholders and directly from the account holders themselves.

Through this process of monitoring, evaluation and listening, PCCU has been endeavouring to improve the product and its operations, procedures, and delivery in the interests of the members. It has developed an understanding and knowledge of Child Benefit lending and has implemented change and modifications in several areas. This chapter endeavours to explore some of the principal areas of organisational learning.

Design

A key learning outcome is ensuring the product aligns with the values and strategic objectives of the credit union. It was important that the board of directors and senior management were clear about the purpose, operation and pricing of the product, and the benefit that it would bring to members, the credit union, and the wider community.

At PCCU, the board agreed the initial total loan value thresholds for the Family Loan portfolio, which once reached had to trigger an assessment undertaken by the senior management. This review was then to be presented for oversight and review by the board.

It was essential the FL&SS policy was agreed at board level and then procedures created, discussed, and amended by senior management, then shared with training to the staff team.

Application process

FL&SS demands a significant commitment on behalf of the account holder. It demands a commitment to save and to commit a portion of their Child Benefit payment to the repayment of the Family Loan. It is essential therefore that all prospective account holders are fully informed about the loan product and saving scheme prior to signing. Clear processes and procedures are essential to the successful roll-out of the product.

Most FL&SS applicants apply digitally and PCCU regularly reviews the webpages, the online application journey and the Nivo app which offers automated and non-automated messaging and follow up communications.

PCCU has developed a dedicated FL&SS website landing page which details the product, its unique selling points and added credit union benefits, the common bond restrictions, the requirements to apply, a representative example of a Family Loan price and call-to-action links to the application page.

Prior to accessing the application page, an additional website page has been included which repeats key content from the landing page in order that PCCU can be assured that applicants are making an informed decision.

The application page captures standard personal details, as well as:

- Loan and saving terms and conditions.
- The Child Benefit reference number.
- Confirmation that the Child Benefit is in the applicant's name.
- A question asking if the Child Benefit is linked to a loan in another credit union.
- The number and age of the dependents for whom the applicant is in receipt of Child Benefit.
- An agreement to the mandatory savings commitment
- An income and expenditure statement
- Insolvency and affordability related questions
- A data protection statement

Redirecting child benefit

The onboarding process also provides a standard letter for a member to redirect Child Benefit from where it is currently paid to the credit union's account.

Originally the method for redirecting a member's Child Benefit to PCCU's bank account was through a telephone call made from a PCCU branch to a DWP Child Benefit Office. The member of staff would make the telephone call and then pass the phone to the applicant who would then speak to the DWP and arrange for the transfer.

However, with the rapid increase in applications, this method was unsustainable. PCCU had to move to a process based on a letter to Child Benefit Office. The disadvantage is that the letter method takes time, and it could be up to five weeks before the Child Benefit is deposited in the credit union's account. The member solutions team are informed by staff processing the loans when the first Child Benefit payment is expected, and the date is moved on for the first expected payment on the accounting system so that the loan does not fall into the arrears process. PCCU now suggests that members could make a repayment through other methods until the first Child Benefit payment is received.

Member control of Child Benefit deposit

In interviews, some money advisers were concerned that in FL&SS, and with similar Child Benefit loans in other credit unions, the borrower loses control of the deposit of his or her Child Benefit. If financial difficulties arise, they maintained the borrower would find it very difficult, if not impossible, to stop the deposit of Child Benefit into the credit union account. Some credit unions, the money advisers claimed, are reluctant to share the details of the credit union bank account with the borrower, thus preventing HMRC redirecting the payment.

This would not happen at PCCU. Credit union bank details into which the Child Benefit is deposited are always available to members on request. All staff are informed that such details must be given to borrowers on request.

However, it is good practice for staff members, when asked for the bank account details, to take the opportunity to inquire why the member requires them and communicate the reasons to the member solutions team. For cancelling the Child Benefit deposits breaks the agreement with the credit union and may impact negatively on future borrowing. There may, in fact, be other ways the credit union can support a member facing financial hardship.

Most recent Child Benefit payment

Through experience, PCCU has found that it is important to investigate which organisation the applicant's last child benefit deposit was made to. This is to ensure that the Child Benefit is not being used to repay a loan in another credit union and to check that the applicant is still in receipt of Child Benefit.

This is widely replicated within other credit unions offering Child Benefit loans. In all interviews with other credit union staff members, the need for the applicant to provide evidence of where the last Child Benefit payment was deposited was stressed. The evidence is ideally an online or physical bank statement, indicating the applicant's name, the most recent child benefit payment, in which the sort code and account number are visible.

If the applicant cannot access this statement PCCU signposts the member to the form located on the government's website to request the required information.

Assessing affordability

PCCU can only make loans to applicants who can afford the repayments. If the repayments from Child Benefit would result, or are likely to result, now or in the future, in unsustainable financial hardship or detriment for borrowers, resulting in their having to cut back on essential living costs, then PCCU cannot make the loan. Not only would the credit union be treating its members unfairly by granting an unaffordable loan, but it would also be putting its own organisation outside of regulatory requirements with all the risks that this entails.

In interview, some of the debt advisors expressed a concern that, if loan repayments were semi-guaranteed through the arranged deposit of Child Benefit into the credit union, some credit unions may be tempted to neglect an assessment of affordability. If this were to happen, it would be a serious failure of the credit union concerned. For all credit unions must carry out a reasonable and proportionate affordability assessment prior to any loan being made, irrespective of the repayment mechanism.

As a responsible lender, PCCU undertakes an appropriate affordability assessment on all Family Loans.

PCCU reviews the applicant's income and compares the figure to the appropriate household make-up/employment status/number of dependents category within the credit union's expenditure matrix (see section on non-discretionary expenditure below). Further information on income and expenditure may be requested by staff to make an assessment.

As part of the application PCCU asks the applicant the following questions.

- Do you have any arrears?
- Are you struggling to manage existing debt?
- Would you experience problems affording the repayments of this loan?
- Are you in/considering a debt relief order?
- Have you ever been declared bankrupt?
- Are you in/considering a debt management plan?
- Are you in/considering an IVA (individual voluntary arrangement)?

If the answer to any of these questions is "yes" when applying through the Nivo app it will automatically request further information, otherwise a member of staff will ask for further clarification.

Individual Insolvency Register

As explained in Chapter 2, PCCU does not normally carry out credit reference agency checks on Family Loan applications. However, at the outset, neither did it carry out an individual insolvency register (IIR) check.

In the light of experience, PCCU has changed its procedures and an IIR check is now carried out on all applicants across all loan products, including the Family Loan. This free check allows PCCU to search all court insolvency records in England and Wales for individuals currently insolvent with information on bankruptcies, Debt Relief Orders, and Individual Voluntary Arrangements.

PCCU will not lend to anyone who has an active debt management plan, debt relief order, individual voluntary arrangement, or bankruptcy.

A PCCU solutions team member explained that undertaking this check has made a significant difference to Family Loan granting. Declines have increased slightly but, if the register is clear, the credit union has increased reassurance that borrowers are able to apply for a loan. As a solutions team member admitted:

"I would say several of the loans that we carried out the check on at first, did turn out to be people with IVA's. That was not a good thing. So, by consistently checking the insolvency registers, we have filtered a lot of those out now."

This check carries no burden on the member's credit file; however, it clearly identifies those who are in financial difficulty and therefore cannot afford this loan product.

Non-discretionary expenditure

According to the FCA's CONC, in assessing affordability, a credit provider must take reasonable steps to determine the amount, or make a reasonable estimate, of a customer's current non-discretionary expenditure (CONC, 2023). To do this, as supported by the FCA (CONC 5.2A.17R) the credit union can and does use statistical data on non-discretionary expenditure in general as gathered from the membership.

This data is collected by randomly selecting members to complete questionnaires about their expenditures and by reviewing members' bank statements and documenting their expenditures anonymously. This data is then categorised by household makeup and current employment status and summarised as an average for a particular demographic.

With this data the credit union can make educated assumptions about the level of household expenditure for a specific member according to certain criteria e.g., an unemployed single parent, with two or less children.

There are national data sets of non-discretionary expenditure available for demographics. But PCCU considered that the national statistics were not necessarily applicable to communities in the north of England, given the significant social and economic variations between the regions. Therefore, it decided to focus on collecting its own primary statistical data to ensure relevance within its own local, low-income, target market.

Whilst this data provides a basic framework to assess loan affordability, it is not used independently. PCCU is clear that it only partly influences the loan decision as further enquiries must be made, especially in cases where the applicant's financial circumstances, and existing indebtedness, are likely to differ from the sample of persons on which the statistical data were based (see FCA CONC 5.2A.19). If any divergence from average expenditure is detected, an applicant would be required to provide information that was reflective of their own current financial circumstances and any average statistical data would be discounted within the decision-making process.

However, PCCU has found that in many cases the use of statistical data on non-discretionary expenditure is helpful and assists in expediting speedy loan decisioning. It is often the speed of the decision that matters most to borrowers in the low-income, low value loan market.

However, statistical data on expenditure is not something that can remain static. The pandemic and the cost-of-living crisis has put immense additional pressure on household budgets, and as part of the modifications made to FL&SS, PCCU has had to review the statistical data gathered on member's non-discretionary expenditure to ensure this is still reflective of the current financial climate. PCCU is now committed to ensuring this data is reviewed annually so that it stays up to date and is as accurate as possible in ever changing economic times.

Topping up Family Loans

The maximum loan value on the FL&SS first loan is £500. Once members have shown that they keep to their repayment schedule there is an opportunity to apply to increase their loan balance if needed. The repayment history indicates affordability to repay and builds trust between the member and credit union.

However, PCCU decided not to market top-up loans on FL&SS printed materials or landing pages on the website. PCCU knows its members and the times of the year when they may need to borrow, and, if they have not already done so, normally offer the option of topping up loans twice a year. The top-up loan applications also go through the affordability assessment.

Many members noted in the survey comments that the option to increase their loan if needed was a real benefit, helping them with budgeting or unexpected costs. As one member wrote:

"Overall, it's a brilliant service to use, there's reassurance there that if I'm struggling financially or have an unexpected cost I can apply for my top up loan. It eases the pressure and stress financially."

Clarity in marketing communications

Some stakeholders in interview, particularly debt advisers, highlighted that some credit unions that they were aware of needed to be clearer in their marketing communications. They were concerned that information on loan interest rates was not as clear as it could be, neither was it clear that an affordability assessment is carried out. They worried that advertising that suggests, even subtly, that loans are near guaranteed is just not best practice.

From the outset, at PCCU, the FL&SS team have been careful to ensure that all marketing information has been clear, fair, and transparent. In line with the FCA's No.7 Principle of business and CONC 3.3., PCCU has focused on producing marketing material, whether on the website or in printed form, which is truthful, honest, and easy to understand.

However, PCCU constantly monitors and improves all marketing materials to be clear and transparent about the requirement of an affordability assessment prior to any loan being granted, regardless of the applicant's financial circumstance.

It has also improved communication on loan interest rates, including worked examples to illustrate the costs involved. These improvements relate to multiple pages on the website and to information in paid advertisements.

FL&SS digital advertisements and printed materials include details of the product, the available loan amount and APR clearly stated, added credit union benefits, conditions of application and representative examples.

Financial education

Central to strengthening the financial health and well-being of FL&SS members is the support given to develop their financial knowledge and understanding. This is reflected in the fourth object of a credit union, as defined in the Credit Unions Act 1979, "the training and education of the members in the wise use of money and in the management of their financial affairs" (CUA 1979).

To ensure that this object is met, PCCU launched in 2022 a 'Money Matters' section of its website[19] designed as a central information hub on money management. A monthly financial information update is sent by email to all FL&SS members which includes a link to the central hub. A regularly updated blog also informs members of issues of current financial interest.

The hub also provides signposting to debt and money advice agencies that may be able to assist members build a better financial future.

[19] www.pccu.co.uk/money-matters

Money Matters was originally created for FL&SS members but is open to all PCCU members as the credit union has a mission to support all members financial wellbeing through education.

The content is prepared to rank highly for organic searches, due to search engine optimisation (SEO), which means that people in the community could also become aware of the credit union and its services.

Managing loan declines

As the volume of loan applications increased, PCCU became increasingly aware that communication with those declined a loan had become less informative and often with a tone that was unhelpful and even unintentionally abrupt. PCCU realised the need to communicate more effectively in way that was positive, empathetic, and supported people to improve their financial position (cf Dibb et al. 2022)

PCCU now has a uniform approach across credit union communication channels and staff have been provided with a template that assists with supporting positive dialogue with declined members, informative messaging and signposting to relevant content or agencies that can help.

A related area for improvement was the collection of data on loan declines. Data had not been collected or recorded efficiently or effectively. One reason for this had been the lack of joined-up technology. But the result was a lack of information on how many people had been declined or for reasons.

A new system has now been put in place to track Family Loan declines, both in terms of numbers and reasons for the declines. With this information known, PCCU can act on this accordingly whether that be in informing decision making when reviewing affordability assessments or in communicating with current or prospective members. Ensuring declined members have a positive experience of engaging with the credit union, despite the outcome of their loan decision, is important to PCCU as these members are often the most vulnerable.

Promoting savings

Mandatory savings of £1 per week is a fundamental aspect of FL&SS. However, account holders are encouraged to save as much as they can afford.

Applicants are informed about the 'Save as you Borrow' policy on the website landing page, application page and within the onboarding process through the Nivo app. They are also informed about the free life savings and loan protection insurance, also that PCCU is part of the Financial Services Compensation Scheme (FSCS) protecting their deposits at PCCU up to £85,000.

During the onboarding process, the applicant is also introduced to the range of free-to-open savings accounts; including the Easy Access account which is not locked until the loan balance is repaid and the Christmas Savings account, detailing how they can open and deposit.

The promotion of the other free-to-open savings accounts has therefore become increasingly a cornerstone of the FL&SS product. Whether that is the Young Savers account or the Christmas Savings account that helped over 700 FL&SS members save £119,870 during 2022, averaging £162 per member, clearly helping families to cope with the most expensive time of the year. There would not be such an amount in voluntary savings if the deductions from Child Benefit were unaffordable.

The option to save additionally through standing order not only results in increased saving but introduces an alternative payment method for the time when children come of an age where Child Benefit stops.

Member progression to standard loan products

The aim of FL&SS is to build the financial stability of members and enable them to improve their future access to other, more standard affordable credit options. PCCU reports repayments on FL&SS to credit reference agencies which hopefully improves the member's credit rating.

Over time members will potentially be eligible to apply for larger loan values at lower interest rates at PCCU. However, future lending is not done solely on credit scores, the credit union takes a holistic approach to the loan application assessment which includes loan payment and savings history with PCCU.

PCCU has learnt the importance of informing members of the differences between the FL&SS and standard loan products. Standard loans require an increased level of savings contribution and the time between applying for top up loans also increases to allow savings to build up and loan balances to reduce.

Managing the termination of Child Benefit

Child Benefit stops on the 31st of August on or after a child's 16th birthday if they leave education or training. It continues if they stay in approved education or training up to the age of 20 years old, but the recipient must tell the Child Benefit office. This naturally presents an issue for credit unions that receive Child Benefit deposits which form part of a loan repayment.

PCCU has created content, including blog articles and message templates, on what happens when Child Benefit stops. This information is now integrated into the loan application page and the onboarding process. There is also increased communication relating to the issue at specific times of the year through email campaigns and social media channels.

During the application processes for the Family Loan and for top-ups, PCCU records the ages of children for whom Child Benefit is received. Staff discuss the termination of Child Benefit with members and discuss alternative repayment methods.

Loan Rebate

As a financial co-operative, the credit union shares any surplus from trading with its members, who are the owners of the co-operative. Normally this is in the form of a dividend on savings.

However, PCCU has also introduced a loan rebate to borrowers as an additional benefit. This is of particular importance to FL&SS members as their savings balances may be low or modest at best. At the March 2023 Annual General Meeting (AGM) members agreed a 15 per cent rebate on all loans[20]. FL&SS members have contributed to the success of the credit union and should benefit from its growth.

9. Variation of credit union approaches

PCCU is not the only credit union to offer a product linked to deductions from Child Benefit. More and more credit unions are offering comparable products to FL&SS given the evident benefits of such schemes for credit union members, particularly those on low incomes, and for credit unions themselves. For credit unions, such schemes mitigate some of the risk of lending in the low-income market and thus enable them to reach out to more and more people in need of affordable credit and savings accounts.

However, there are differences in the way that credit unions position, market and deliver their Child Benefit linked products. As part of this study, the research team interviewed staff members from several credit unions to learn from their experience. Such learning is designed to inform PCCU thinking on product development in the future.

[20] To explain: 15 per cent of the interest paid on loans is returned to the borrower. Example: for every £10 in interest they have paid, PCCU returns £1.50.

Affordability assessment

The Co-op Credit Union would not offer a Family Loan to applicants who had circa ten defaults or CCJs. It has introduced a form of risk-based lending related to a lower loan value version of the Family Loan. This is offered to people with a weak credit profile and loans are typically less than £500. Normally, the credit union uses the results of a credit reference agency search to assess affordability. However, it will also do open banking searches when high levels of debt appear on the credit file. CCU considers a high level of debt to be over £5,000.

Enterprise Credit Union includes open banking and a credit reference agency check on all loan applications. It uses a scorecard system to evaluate all loans. However due to the reduced risk of default from Child Benefit being deposited directly into the credit union, the score that is needed to be accepted for a loan is lower than with loans associated with other repayment methods. Child Benefit linked loans thus expand the reach of the credit union into the low-income market.

London Plus Credit Union uses open banking to check income and identify affordability issues including problem gambling.

Manchester Credit Union uses open banking to check for rent and debt repayments and combines this with an assessment of average household spend based on data from the Office of National Statistics.

Credit checking

The Co-op Credit Union conducts a credit reference agency search on the first loan application to identify historical defaults and county court judgements. However, it only acts on this credit check to decline a loan if the applicant has around ten loan defaults or CCJs.

However, when the borrower applies for a top-up loan later on, the Co-op has a slightly different approach to the credit check. A credit check is undertaken but this time the credit union is looking to see if the applicant's financial circumstances have improved or deteriorated. If they have deteriorated, this will impact significantly on loan decisioning. A Co-op staff member explained this practice:

"We take this approach because we do see deterioration sometimes on people's credit files. It's why we do periodic assessments. And the credit search is an important part of assessing affordability."

London Plus Credit Union undertakes an annual credit reference agency check to identify any changes in a member's financial position including the identification of gambling issues. The result of the credit check impacts on decisions about future loan applications.

Distribution of the loan

Manchester Credit Union does not distribute the loan value until the first Child Benefit payment is deposited, this usually means a minimum wait of a week but could be up to 5 weeks. In theory this gives the borrower time to consider whether the loan is right for them, however it could be said that a member from a credit union that distributes almost straight away is welcome to repay their loan at any time without penalties if they change their mind about a loan.

Savings contribution

All credit union staff members confirmed that their Child Benefit linked products require the member to save regularly. All have a form of locked commitment savings. Interestingly, three of the credit unions interviewed noted that they require a regular savings deposit higher than the £4 per month required at Manchester Credit Union and PCCU.

The Co-op Credit Union requires all members to save a minimum of £10 per month. London Plus Credit Union requires £8 per month in locked savings, but any additional saving is put into an easy access account. Enterprise Credit Union requires all new borrowers to save £10 per week.

Topping up a loan

The Co-op Credit Union's rules on topping up a loan indicate that a member can increase their loan after six months of repayments or when 50 per cent of the original loan balance has been repaid. This takes into account the fact that some members repay their loans quicker than others.

Enterprise Credit Union does not allow top ups within the first year, coupled with its large weekly savings contribution requirement this means that the member builds up relatively large savings which can help with further borrowing.

London Plus Credit Union's model allows a member to top up after half the original loan balance has been repaid and will increase the maximum loan balance to £650. This is in recognition that a member may need to borrow more and has built a good relationship with the credit union through keeping to the repayment schedule.

Manchester Credit Union's model allows a top up application after a third of the original loan balance has been repaid up to a maximum of £500. Knowing the date when a top-up application can be made may assist members budget more effectively as they are able to consider future borrowing options.

10. Impact and delivery

Over the last few years, credit union products such as the Family Loan and Saving Scheme (FL&SS) that are based on deductions from Child Benefit have come in for criticism from some debt advisers. In a survey undertaken by the Institute of Money Advisers (2021), for example, over a fifth of the 80 written comments mentioned Child Benefit loans, none of which were positive.

The debt advisers interviewed as part of this study expressed concerns about using Child Benefit to repay loans, worried that many families may depend on that income to make ends meet and adequately provide for children. They worried about the robustness of affordability checks when repayments are assured through Child Benefit. They argued too that it was difficult for borrowers to cancel repayments in times of financial stress, which could be detrimental to their well-being. Several were also uneasy with the locked-in nature of commitment savings, which not only reduced the amount that could be repaid off a loan but also mitigated against savers using their funds in times of financial need. They also suggested that some credit unions offering a Child Benefit linked product sometimes resist working with debt advisers when a loan goes bad.

On impact

PCCU takes these concerns seriously and trusts that they have been answered through the evidence presented through the findings of this study. From the study, two things stand out. First, FL&SS is overwhelmingly valued by its account holders for its straightforward access to credit and a handy savings facility. Secondly, FL&SS's effectiveness and credibility depends on having in place robust policies and procedures that are transparent and equitable and that protect account holders and work in their interests.

Account holders primarily value FL&SS for the access it gives to a low-value loan, the repayment of which is problem free and assured through a deduction from Child Benefit. As revealed in this report, 98 per cent of respondents to the survey (n500) agreed that FL&SS had helped them a lot and all 500 respondents bar two agreed that they would recommend it to a friend. The satisfaction rate of the service is beyond expectations. 98 per cent of respondents said that they were happy with the service provided by PCCU.

The repayment of small value loans through deduction from welfare benefit payments is not in fact new. The most well-known form of loan related to repayment by welfare benefit deduction was the Social Fund Budgeting loan scheme, established in 1988 but abolished in 2013[21].

[21] Support is currently provided by Universal Credit Advances and Budgeting Advance loans

A number of academic studies revealed the positive regard the social fund was held in by beneficiaries. Whyley, Collard and Kempson (2000), followed by Collard and Kempson (2005) found that the deduction of repayments from benefit was very popular, and people regarded this function alone as an incentive to use the scheme. It meant that they did not have to worry about falling behind with repayments as the deduction near eliminated the risk of falling into arrears. These authors found that people did not miss the money that was being deducted, or else quickly adjusted to managing on less benefit.

But FL&SS is not only about access to affordable credit. Account holders also value the commitment savings aspect of the product as it defaults them into a savings mode that they find advantageous over the longer term. Saving on a low income is not easy, as there are often additional and unexpected calls on the household budget. The locked-in nature of the savings account ensures that people can build a savings pot, with all the social and psychological benefits that this entails. Interestingly, 89 per cent of the 500 respondents to the survey did not save regularly before taking out the Family Loan but do save now. 91 per cent planned to continue saving after repaying their Family Loan.

On delivery

Some debt advisers interviewed in the study said that they did not have a problem with Child Benefit linked savings and loan products per se. They were more concerned how these products were, or could be, marketed, promoted, and delivered by credit unions in a way that was not fully supportive of the well-being of families on low incomes. This point is well taken and PCCU has endeavoured since the outset, and through the changes introduced over time, to ensure that FL&SS is delivered in a way that puts members first and that operates in their interests.

For PCCU, effective member-focused delivery of FL&SS, briefly put, involves the following key elements:

Strategic focus

A Child Benefit linked product must align with the values and strategic objectives of the credit union. These objectives are both social and economic. Not only must the product support the financial well-being of the member, but it must also be economically viable for the credit union to operate over time. PCCU currently charge the maximum 3 per cent per month (42.6 per cent APR) on Family Loans based on a regular pricing review.

Members first

It is essential that Child Benefit linked products focus primarily on building the financial resilience and stability of account holders. This means that the product, as well as providing access to a loan and a savings account, must also offer appropriate support and access to financial education in money management and budgeting.

Transparent marketing

Often when people need a loan, it is obtaining the loan that counts and attention to the terms and conditions may at that moment appear less important. It is therefore imperative that all marketing and materials promoting a Child Benefit linked loan set out clear, understandable information about the terms and conditions that is fair and not misleading. This must include information on the cost of the product to the member, with clear worked

Saving promotion

As stressed in this report, the savings aspect of FL&SS is key to building the financial health and resilience of people on low incomes. However obligatory, locked-in savings cannot be too onerous. Of course, voluntary savings are at the discretion of member.

Rigorous affordability assessment

This is crucial to good practice. The fact that repayment is assured through Child Benefit deposits should have no bearing on the rigour of the affordability assessment. However, for small value loans this assessment does have to be proportionate. PCCU does not carry out credit reference agency checks on Family Loans, but this does not mean that the credit union does not assure itself that borrowers can afford the repayments.

Managing declines

Not everyone can be served with a Family Loan, for some it may not just be affordable. In cases of decline, credit unions should endeavour to support applicants to build up their creditworthiness so that they can access loans in the future. Recommended approaches to loan declines are outlined in Dibb et al (2022).

Member control

Credit unions need to ensure that the member remains in control of the Child Benefit deposit. It may be that a member must cancel a deposit to meet essential living costs. It is not recommended that borrowers do this unilaterally, as the credit union is there to support its members through difficult times and other solutions may be possible. And cancelling the deposit breaks the agreement with the credit union which will have consequences in relation to future borrowing. But in principle the member should have access to the credit union's bank account details in order to cancel the deposit if they so desire to do so.

Member progression

To support the greater financial inclusion of account holders, they need to be able to access standard lending and savings products. This includes larger loans at lower interest rates.

Flexibility

Research studies have revealed the dynamics of credit use in low-income households. As Ellison (2011) demonstrated problems in affording essential items and balancing competing pressure on budgets are a day-to-day reality for 74 per cent of those on low incomes. The result is often missed payments on credit and household bills. This is a reality that credit unions offering Child Benefit link loans will have to manage with flexibility and a readiness to help a member in need.

Ability to top-up the Family Loan

One clear advantage of a Child Benefit linked loan is that it enables the borrower to a regular source of credit for household expenses and special events such as Christmas. This feature of the product is an important part of its attractiveness to account holders.

Member support

Account holders need to know that they can approach the credit union for support in times of financial hardship. The availability of support, and its effective promotion, are central to effective delivery of Child Benefit linked loans such as FL&SS.

Monitoring, evaluation, and review

PCCU has kept FL&SS under constant review since the outset and, as described in Chapter 8, such monitoring and evaluation has led to change and development in the light of experience. Regular monitoring and evaluation resulting in organisational learning is critical to effective, long-term delivery.

Final words

A low-value loan product designed for the low-income market

FL&SS was designed for the express purpose of enabling people on lower-incomes to access credit and to save regularly. It is open to all members of the credit union, whatever their personal or economic circumstances, but clearly it supports those on low-incomes the most. Its characteristics and features are expressly designed with the low-income market in mind.

It is remarkable just how popular and valued this product has become. This has not only been demonstrated in this PCCU research study but also in a parallel and contemporary study conducted conjointly by the Financial Inclusion Centre and the Swoboda Research Centre (Evans et al.2023). And the Association of British Credit Unions (ABCUL) has, based on the experience of credit unions throughout the sector, endorsed the Child Benefit linked product as of direct value to people on lower incomes. As one ABCUL staff member noted:

"Everyone at ABCUL is of the view that the Family Loan is an example of credit unions trying to help their members with products that are relevant to them."

But the last word goes to three account holders, all quotations taken from the survey:

"I think this service is absolutely fantastic, I wouldn't change it anyway. I couldn't appreciate it anymore. Thank you!"

"Thank you for helping families that are struggling."

"You're all doing a good job and should be proud."

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