Responsible Finance

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Scaling Affordable Lending: Case Studies

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Henry, N., Velthuis, S. and Morris, J.

Contents

1 Executive Summary

Introduction: affordable lending, an alternative to high cost credit

The vision of affordable lenders is that everyone should have access to affordable and appropriate credit, delivered in a fair, respectful and responsible way. Affordable lenders are typically social purpose lenders, such as responsible finance providers and credit unions.

Reliance on high cost credit continues to grow and the consumer detriment caused by unsustainable debt is now well documented. Affordable lenders such as responsible finance providers and credit unions are long-standing lenders in this market, providing an ethical alternative to high cost credit, that is both lower cost and provides wrap-around services that supports consumers' financial capability. Whilst they are effective interventions, these affordable lenders are small scale and look different from one another as they are locally focused. Therefore when looking at the problem at a national scale it can be challenging to draw common themes from the affordable credit sector.

As policymakers, regulators and practitioners search for a scalable solution for the provision of affordable credit, this report provides a spotlight on five organisations and their pathways to scale. The five organisations highlighted are very different in terms of their histories, size and lifecycle stage. However the commonalities in their journeys point to the keys to unlock scale for the affordable credit sector:

- **The need for the right capital at the right time.** Affordable lenders typically require seed capital to get started, operational funding to create the breathing space to become sustainable over time, and patient capital to grow their loan books. This funding at different stages has been critical for each of the organisations profiled in this report to reach scale and sustainability. Lack of appropriate funding has also proven a factor in delaying that journey.

- **Realistic understanding of the time and resources it takes for an affordable lender to reach scale and become sustainable.** The organisations profiled in this report have all demonstrated success, however their journeys underscore the fact that building a high impact and self-sufficient lender takes time and investment. This is driven by factors such as the regulatory authorisation process, building customer trust and thus building the brand, developing fruitful local and national partnerships and establishing a lending track record. However this long-term timeline is often mismatched with funders' and stakeholders' expectations for short-term results. It is important for expectations to be aligned with the reality of delivering an affordable lending project.

- **Partnership working is key for realising new growth opportunities.** Launching new products or entering new markets requires significant market research and investment. For relatively small organisations such as affordable lenders, a lack of investment can be a barrier to entry, so partnerships can play an important role reducing those barriers. Most of the organisations presented in this report benefited from partnerships with other organisations in the sector and took risks in participating in partnership-based projects. These partnerships proved valuable in accessing new markets through a partner's existing brand and reach, co-branding products to offer customers greater choice and consolidating on shared back office costs.

- **Making use of new technology to meet consumers' needs**. The unique value of affordable lenders is the customer service aspect which considers a broad range of data points when determining creditworthiness and offers access to advice when credit is not right for the customer. Many of the case studies showcased in this report demonstrate how new technology can be deployed to augment this high quality of customer service. However there is a careful balance between using technology to improve the customer journey and replacing relational parts of the loan lifecycle to reduce costs. So while technology can indeed play an important role, it is not always the silver bullet to scale and sustainability for affordable lenders.

- **Due to the locally focused and dynamic nature of the operating environment, there is no one size fits all approach to scale and sustainability for affordable lenders**. A multiple-support systems approach creates the most healthy market, so that affordable lenders can use the tools that are best fitted to their needs. This includes access to unrestricted grant for capacity building projects, tax reliefs and guarantees, as well as appropriate capital to on-lend.

Scaling Up Affordable Lending: Case Studies

In 2017, Henry and Morris (2017) reviewed the role, scale and scope of the affordable lending sector within the segmented and dynamic landscape of UK consumer credit.[1] Observing a history of fragmented, patchy and intermittent provision, the review outlines the strategic challenges to achieving a national range and scale of resilient and sustainable providers of affordable and suitable financial products.

The review ends by noting a number of recent developments in response to the challenges of scaling up, including partnership-based growth projects, direct targeting of specific product and consumer segments and expansion of online provision through enhanced use of digital infrastructures. By connecting community finance provision across the UK[2], there is growing evidence of scaling to achieve greater sustainable geographical and market reach and depth across affordable lending markets.

This report provides case studies of such organisational developments in affordable lending. Each high profile example demonstrates, from differing origins, a development response to achieving scale to meet the need for fair and affordable consumer credit.

A case study summary is provided in Table 1.1. This describes the activities and achievements of the five initiatives and sets out, in the last column, key ways in which the organisations have been able to achieve scale and some of the challenges to scaling up that they have experienced.

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[1] Henry, N. and Morris, J. (2017) Consumers, Credit and Scaling Affordable Lending: A Literature and Evidence Review. A Report to Responsible Finance;

[2] Responsible Finance (2017) Tackling Financial Exclusion Through Local Finance Partnerships; http://responsiblefinance.org.uk/policy-research/local-finance-partnerships/

2 Why this Report?

Affordable lending, financial exclusion and sectoral developments

The vision of affordable lenders is that in the UK, wherever people live, they should have access to more affordable and appropriate forms of credit, delivered in a fair and responsible manner, and which support financial resilience and reduced financial exclusion[3].

The Oak Foundation funded Responsible Finance (RF) and the Centre for Business in Society (CBiS), Coventry University to undertake a research programme to advance the supply of sustainable and affordable finance products to the millions of consumers and families excluded from mainstream credit and lending markets. Its particular focus is to investigate how to overcome a number of known barriers to affordable lenders meeting consumer demand at a national scale and in a sustainable manner.

The Oak Foundation commits its resources to address issues of global, social and environmental concern, particularly those that have a major impact on the lives of the disadvantaged. Responsible Finance is the voice of the responsible finance industry. It supports a strong network of responsible finance providers who are increasing access to fair finance across the UK. At their heart is the idea of bringing social and economic benefits to people, places and businesses.

[3] See, for example, https://www.carnegieuktrust.org.uk/project/affordable-credit/ and http://responsiblefinance.org.uk/responsible-finance-providers/what-is-responsible-finance/.

Table 2.1 Scaling Up Affordable Lending: Case Study Summary

	What they do	Achievements	Scaling Up
Five Lamps	A charity, with a wholly-owned trading subsidiary, which delivers a broad portfolio of social, economic and financial inclusion services Lending activity sits within the trading company, while Economic Development, Youth Services, and Home Care remain within the charity Provides: - affordable and responsible unsecured personal lending alternative to high cost, short term credit markets - unsecured personal loans to start-up a business - financial assistance for vulnerable homeowners to repair, improve and adapt their homes Expanded from local, office-based provision to multi-channel offer; national online service (Conduit, Conduit Scotland), telephone service *and* local 'shops' around the UK based on funding and delivery partners	Over 30 years old Annually serves over 20,000 financially and socially excluded individuals First personal loans made in August 2007. 75,000th loan made in early 2017 Over £32 million loaned to date Investment prospectus issued in April 2017. £5 million of social investment raised Award-winning impact reporting	Long run process of generation of a loan fund of sufficient scale (through grant/ social bank borrowing/ social investment products/ recycling) Excellent long-term strategic support from Unity Trust Bank Significant internally-funded development of an efficient, cost effective (and relatively quick) lending infrastructure given target customer expectations Online now main component of a multi-channel offer given different customer demographics A constant process of partnership, pilot (and trial and learning) Strong business-orientated governance and a commitment to demonstrating impact

Scotcash	Formed in 2007 as a CIC and responsible finance provider as part of Glasgow City Council financial inclusion strategy and to target doorstep lending Strongly integrated ‘one stop in-office’ services to support financial independence and resilience. Personal lending sits alongside basic bank accounts and savings accounts, welfare, money and debt advice. Able to ‘act on behalf of’ partners and/or partner presence in office Offices physically embedded in to local target communities through partnerships. Integrated, partnership model extended across Glasgow and in to Edinburgh but continues to be driven by ‘local catchment presence’ Most recently moved to additional national telephone and on-line lending provision	In 10 years, 20,000 loans over £8 million in value, 2,500 basic bank accounts and more than 700 savings accounts delivered amongst the poorest and most vulnerable communities in urban Scotland Evidence of changing financial behaviour in target communities	A decade of sustained ‘start up’ funding and other forms of support from its key partners Glasgow City Council and Glasgow Housing Association A strongly integrated services model built on deep, purposeful and long run partnerships Delivery model has been ‘physically embedded in the market’ given deep knowledge of the target consumer and to achieve an effective integrated services model Recently embraced multiple channels and digital infrastructure in line with changing consumer expectations and cost advantages

Fair for You	A CIC set up as an arm of charity Fair for You in 2015 Major intervention in and challenge to the rent-to-own market to provide household goods through affordable and responsible credit Online and national from birth, provides unsecured loans to purchase a steadily expanding set of household goods through an online shop integrated with selected set of retailers	Extended £1 million in loans to over 3,000 customers in first year of operation. Undergoing rapid expansion since launch, with £3 million of lending achieved in second year Clear evidence successfully competing against existing providers (of various forms of high cost credit) Very high customer satisfaction Become a ‘go to’ delivery vehicle for a range of foundations, trusts and social investors seeking an effective and scalable intervention Evidence of path to sustainability	The large scale of start-up funds required in order to launch and provide a position to scale-up Gestation period included substantial investment in to ‘knowing the customer’ This analysis informed the creation and robust development of a honed lending business model Utilisation of digital technology from inception, and the advances of fintech A commitment to (and investment in) high quality social impact reporting that has supported strong understanding of the efficiency, effectiveness and impact of Fair for You

Just Finance Foundation	Created in 2016 by the Archbishop of Canterbury to create a fairer financial system serving the whole community The Just Finance Network is bringing together national and local activity to: expand access to fair financial services; increase capability and financial education, especially amongst future generations; and mobilise local partnerships and community activity through the local anchor role of churches Involves a number of pilots, trials and learning activities such as (the previous) Church Credit Champions Network, Lifesavers education and Cash Smart Credit Savvy	Enhanced national awareness of problems of financial system, exclusion and responsible finance alternatives, with over 400 churches engaged in programme[4] Local impacts on financial capability and education, community based finance and support systems Mobilised a new cadre of donors, supporters and volunteers of responsible finance	The profile, marketing, reach (and power) JFF has been able to bring to the issue of affordable credit both on a national and local scale through its association with the Church of England Credit unions are only one of the key parts of a local financial system solution Any such system solution needs to entail local partnership, as a community anchor the church has the ability to broker such partnerships and their engagement with target communities The on-going challenges of raising funding to move beyond pilots and trials

[4] JFF Impact Report 2016. https://vimeo.com/217191600

Affordable Lending Portal	Soft launched pilot in October 2016, intended to become a commercially sustainable national online lending channel for responsible finance personal lenders Brought together a mix of responsible finance providers, credit unions and commercial partners. Set-up as on-line referral channel from Asda Money to its own platform Mission to develop sustainable nationwide private sector supply of affordable credit to low income customers, to foster partnerships between affordable finance providers to create national capability, uniformity, and to pilot processes to overcome the barriers to the supply of affordable credit at a national scale through a phased process	Achieved large reach to potential borrowers but translated into low volume of loans. By December 2017 pilot reported: - 60,000 visits to website. High percentage of click-through from Asda Money - 3,000 eligibility checks using basic details - Matched over £1,000 customers with viable lending products - Took 600 customers through loan application process - Processed 300 loan applications - Fulfilled around 100 loans - Provided loan and wrap-around support to over 60 individuals	ALP designed around three 'scale dimensions' – partnership working, national reach of an on-line lending channel and commercial sustainability Partnership building time consuming, number of interested parties exited as initiative progressed Limited lending activity not an attractive incentive to join Regulatory authorisation a large hurdle September 2017 Asda launched own personal lending platform with commercial lenders. ALP had continued referrals of those rejected under this, but means a protracted customer experience ALP online system complex and cumbersome. Refinements limited by the different systems and procedures of the lending partners Pilot was expected to support understanding of pricing models. Lack of lending provided limited insight into a viable fee model. Pilot remains far from commercial

3 Scaling Affordable Lending

This section looks at each case study in turn, setting out more detail about them, including how they have evolved and expanded operations to reach a wider consumer base and have greater impact.

3.1 Five Lamps - Who are they?

Founded in 1985, Five Lamps is a social enterprise based in Stockton-on-Tees in the North East of the UK. Created with the help of local churches, and originally known as 'Thornaby Impasse', its founding aim was the alleviation of increasing levels of unemployment in the Thornaby area brought about by the closure of the local steelworks. In 1993 the organisation adopted the Five Lamps name that it uses today.[5]

By 2017, Five Lamps had grown to employ around 90 staff, over 20 volunteers and deliver over £3 million of annual contracted turnover through its integrated business divisions of Economic Development (enterprise and employability), Financial Inclusion and Housing, Youth Services, and Home Care. Today, these business divisions reflect the development of the organisation's mission:

> 'To Transform Lives, Raise Aspirations and Remove Barriers to Social, Economic and Financial Inclusion'

In 2012, Five Lamps established a wholly-owned subsidiary trading company to handle its empty homes programme which saw 49 properties in Darlington and County Durham brought back into use, having lain empty for an average of over 6 years. In 2016, in recognition of the wishes of potential investors, the charity agreed that all lending activity would sit within the trading company, to create a transparency of governance and performance, ahead of the issuing of a prospectus for social investment.

Growth has been maintained in the face of constant challenges around the complex economic problems that Five Lamps targets. For example, a decade of austerity-driven upheaval reflected in greater and deepening consumer needs, reduced and more competitive funding streams, constant reconfigurations of funding at local, regional, national and European levels, and associated project churn.

In response, Five Lamps 'integrated services' approach has supported its resilience.[6] In early 2013, it faced a £2.2 million (55%) decrease in income due to several major contracts ending but was able to manage through this period, achieve similar levels of turnover within 18 months, and has continued strong turnover increases in subsequent years. This has included geographical expansion and the launch of a new trading arm, Conduit, whose profits are returned to the main charity.

[5] http://www.gazettelive.co.uk/news/local-news/five-lamps-lights-way-3742602

[6] https://www.pioneerspost.com/videos/20160211/strong-leadership-steers-social-enterprise-through-tough-times

Most recently, Five Lamps has sought to finance further growth seeking £5 million of investment from foundations and social investors.

In the last ten years, the organisation has won numerous local, regional and national awards for its quality of service, level of impact, demonstration of social enterprise as a business model and innovative provision of responsible finance across personal, business and community lending markets.

3.2 Five Lamps and personal finance

It was in 2007 that financial inclusion was added to Five Lamps portfolio of services through a Northern Rock[7] Foundation fund of £80,000 that aimed to provide affordable loans to financially excluded individuals in Tees Valley who might resort to high interest 'doorstep' lenders. Subsequently Five Lamps became one of the more than 150 lenders for the Department of Work and Pensions' Growth Fund operating in the North East and Yorkshire. This aimed at raising levels of access to affordable credit by building the capacity of third sector lenders to serve financially excluded households.[8] By 2012, Five Lamps was delivering over 12,000 personal loans annually with £5.2 million of lending value. It lends at interest rates designed to reflect the level of credit risk in its target market as well as the cost of provision, which means that interest (112.9% APR) is higher than that charged by credit unions (which are capped at 3%) but substantially lower than that of high cost lenders (on its website Five Lamps makes a comparison with the Provident which for a similar product charges 299.3% APR).

£91

SAVED PER PERSONAL LOAN

Like-for-like cost saving on a personal loan, compared to alternative high-cost credit providers.

Given its growing track record, in June 2012, Five Lamps supplemented its personal lending capacity by securing £1 million from Unity Trust Bank. This was 'path-breaking' both for the bank and the affordable personal lending sector, which prior to this had not secured commercial investment. By August 2014, having repaid half of the initial borrowing, Five Lamps agreed to extend the loan facility back to its original level, financing expansion of personal lending activities, including through an improved on-line portal.

By 2016 Five Lamps had an online, automated, industry standard lending infrastructure capable of verification, validation, and decision-making. Nevertheless its lending was reduced to 10,000 loans in 2013/14 and then further to 7,000 loans in 2014/15. This was in direct response to the changing risk of lending resulting from welfare reforms which in particular placed substantial financial pressures on potential and existing borrowers, increasing financial insecurity and vulnerability amongst consumers.[9]

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[7] Northern Rock was a regional building society that demutualised to become one of the largest UK banks and set up a charitable foundation. It subsequently collapsed in the global financial crisis and was nationalised http://www.bbc.co.uk/news/business-41229513

[8] See Collard, S., Hale, C. and Day, L (2011) Evaluation of the Financial Inclusion Fund, http://www.bristol.ac.uk/geography/research/pfrc/themes/finexc/growth-fund.html

[9] https://www.fivelamps.org.uk/wp-content/uploads/2016/02/Five-Lamps-Social-Impact-Report-2014.15.pdf

Notwithstanding further market change, driven especially by regulatory intervention through the Financial Conduct Authority (FCA), Five Lamps has continued to seek to develop new avenues to support its personal lending ambitions. This includes extending geographical and market reach, expanded delivery channels and developing new products. Recent joint initiatives include Sheffield Money, Our House, Affordable Lending Portal and Conduit Scotland. Not all have yet had the desired impact, but all have supported Five Lamps' continued development of knowledge of market segments and delivery channels and partnership creation across the responsible finance ecosystem.

Conduit Scotland

In 2017, Five Lamps expanded into Scotland through its Conduit Scotland channel, providing responsible personal lending provision in Fife, Falkirk and West Lothian, funded initially by the respective local authorities. The three commissioners were responding to the work of an Affordable Credit Working Group in Scotland, which led to the key report 'Gateway to Affordable Credit', published by Carnegie Trust.[10] The aim is to offer a competitive, socially responsible alternative to non-mainstream lenders such as payday loans and doorstep lending. Part of targeted interventions towards the area's most vulnerable residents the initiative will tackle poverty and social exclusion in the region.

The service will target people on lower incomes with no record of savings and who have an extremely poor or no credit rating. This group is often hard-to-reach, vulnerable and not always willing to seek advice and support. It is estimated that there is a potential social saving to the local economy of £2.5 million, reflecting the amount of money saved in interest by customers who would have potentially borrowed from a more expensive source.

Five Lamps has opened four shops, two in Fife (Dunfermline and Kirkcaldy), one in Falkirk, and one in West Lothian (Bathgate) to provide a face-to-face service. In addition a telephone and online lending service is also available. Five Lamps will establish a 'pop up' presence in each local area to raise awareness of the service.

Critical to the rationale for shop provision and pop-up is the ability to engage directly with, and in, local communities. This is part of the broader services offered to customers alongside the 'gateway' of affordable lending. Partners in the Fife provision include Citizens Advice and Rights Fife, Jobcentre Plus, Fife Gingerbread, the Scottish Welfare Fund, Fife's credit unions, to provide advice and services that are tailored to customer needs. Similar referral networks are available for Falkirk and West Lothian as a whole.

The shops opened in August 2017. Lending is running ahead of target after 6 months of operation. It is anticipated that 25,000 loans will be made in the first five years of the new service.

https://www.conduitscotland.com/

http://www.falkirk.gov.uk/news/article.aspx?aid=4190

Today, in terms of personal finance, Five Lamps delivers:

- national unsecured personal loan activity online or by telephone through a separate trading arm, Conduit – over 75,000 loans totalling c£32 million since 2007;
- unsecured personal loan activity online, by telephone or through a small number of branches and pop-ups in Scotland through Conduit Scotland (see Box 1) - £350,000 of lending in the first six months;
- national unsecured personal loan finance through the Affordable Lending Portal pilot.

[10] https://www.carnegieuktrust.org.uk/wp/wp-content/uploads/sites/64/2016/04/Gateway-to-Affordable-Credit.pdf

- unsecured personal loans to start-up a business in the local region through the government-funded Start Up Loan Fund or New Enterprise Allowance Scheme (DWP) – over 4,000 loans made totalling c£5 million;

- financial assistance for vulnerable homeowners to repair, improve and adapt their homes through Helping Hand (the North East Private Housing Financial Assistance Programme) commissioned by ten local authorities in the region – c950 loans totalling over £8.5 million since 2010.

Presented as above, this finance activity is ‘separated’ from the reality of a family of economic, social and financial inclusion activities which makes up the full set of services provided by Five Lamps. For example, youth services, mentoring and enterprise coaching can lead to qualifications, start up loans or enterprise loans (funded by programmes such as Tees Valley Pathways and the Regional Growth Fund); and support with housing extends to a home care service and affordable warmth services alongside Decent Homes lending (and all have been influenced by learning gained from a 2012-15 Department for Communities and Local Government scheme to bring empty homes back in to use).

Nevertheless, whilst brought together, these services reflect differentiated funding streams, area-based initiatives, shared and differential infrastructure and capacity across a substantial range of partners. It has created a complex patchwork of service delivery (England, Scotland, Yorkshire, North East, Middlesbrough, Stockton-on-Tees) as Five Lamps seeks to deliver its mission, at scale, and sustainably.

Through its lending activity Five Lamps has had a positive impact on customers’ lives. The organisation currently estimates the like-for-like cost saving on a personal loan, as compared to alternative high-cost credit providers, is an average of £91 per loan.[11] Based on an average of around 10,000 loans made per year over the four years from 2011/12 to 2014/15, this equates to customer savings of around £3.6 million (assuming that all or most customers would have borrowed from high-cost lenders in the absence of Five Lamps). Survey results also indicate that the vast majority of customers are satisfied with the service that Five Lamps provides, with 94% of customers surveyed in 2014 agreeing that they were “made to feel that they mattered” and 100% of customers saying they would recommend Five Lamps to other people.[12]

The typical customer approaching Five Lamps for a personal loan are young couple or single parent families in their twenties or early thirties, on a low income and so unable to meet one off expenses such as furniture for a new home or essential items for a new baby.

[11] https://www.fivelamps.org.uk/wp-content/uploads/2016/02/Five-Lamps-Social-Impact-Report-2014.15.pdf

[12] https://www.fivelamps.org.uk/wp-content/uploads/2016/02/Five-Lamps-Social-Impact-Report-2014.15.pdf. These responses are from customers across all services provided by Five Lamps, not just the lending services.

Louise – A Five Lamps Customer Case Study

Louise, a single parent from Middlesbrough who had suffered from domestic violence, had accrued a substantial amount of debt due to her ex-partner cancelling payments for household bills and taking out credit in her name. Once she left the relationship and moved into another property with her children, she decided to take control of her finances again.

Due to her previous credit issues and with a limited income from benefits she was unable to access mainstream finance, so Louise applied for a fair cost personal loan from Five Lamps. During a face-to-face meeting with John, a Senior Loan Officer she discussed her situation and completed an in-depth income and expenditure assessment. It was agreed that Louise could afford to repay a personal loan of £300.00 over a 7 month term. The Loan Officer also explained that ongoing support would be available if she had any issues making repayments outlined in her repayment schedule.

Louise used the personal loan to purchase essential baby items. When Five Lamps contacted Louise eight months later for an update, she had cleared the balance on her original loan and had taken out an additional loan.

Louise said "The personal loan from Five Lamps has helped me out a lot, I would not have been able to afford to pay for some of the items I needed for the new baby. The repayments are affordable and easy to manage as the payments come straight from my bank account on the day I get paid. Thanks to John for all of his help."

Source: https://www.fivelamps.org.uk/wp-content/uploads/2016/02/Five-Lamps-Social-Impact-Report-2014.15.pdf

3.3 Scaling up

For Five Lamps, the provision of personal lending developed as a response to one of the multiple barriers to their clients 'transforming their lives and raising their aspirations'. The service sits alongside and (where the potential exists) is integrated with other services needed to overcome the multiple barriers faced by disadvantaged individuals.

Five Lamps development of its personal lending activities is in response to the growing issues of financial exclusion and part of the broader expansion of affordable finance. Targeting disadvantaged groups, it aims to give people who cannot access financial help from mainstream lenders an affordable alternative to high cost doorstep lenders and payday loan companies.

Foremost in the process of scale up is Five Lamps' 'flexibility' as a responsible finance provider compared to credit unions. Responsible finance providers are not membership organisations (which have restrictions on who and / or where to lend), and do not have regulatory restrictions on the interest rates they can charge ('caps'). They can lend according to their social mission, which often include an explicit focus on financial exclusion, and seek to price loans to reflect the cost of lending. Lending to this market entails a high volume of low value loans, which although they are low value still have high transaction costs. As such responsible finance providers operate on tight margins, and therefore benefit from lending at a larger scale so that the fixed costs can be shared across a wider pool of loans.

This has resulted in scrutiny and concerns around relatively high interest rates charged by Five Lamps on personal lending. However, it provides an accessible, affordable and ethical alternative to high cost and other forms of non-standard and often exploitative lending – based on a business model driven by sustainability and the ability to continually relend funds to meet ever present demand.[13] Furthermore alongside meeting lending demands Five Lamps deals with some of the issues that are driving demand. For example, offering money advice services, linked support services (benefits advice, etc.), and signposting and referral to debt and other support charities.

Overall, an ongoing move to expanding responsible personal lending has involved a number of developments.

First, and fundamental, is the generation (grant/ borrowing/ investment products/ recycling) of funds to lend ('a loan fund'). A sustainable loan fund needs to cover the operational costs of lending and any defaults. Given the target market this implies large numbers of small, short term loans, transacted with minimum bureaucracy around a decision balancing affordability (and potential support) with risk of default. This implies loans priced to recover costs (currently with an APR of 112.9% for personal loans from Five Lamps and Conduit), efficient and cost effective operational systems and an element of trade-off between sustainability and reach in to excluded groups.

From its first £80,000 grant, Five Lamps has evolved so that as of today it is able to attract repeat borrowing from social banks and, most recently, has raised money through the emergent social investment market.

Long term strategic support from Unity Trust Bank has been central to this progress.

Second, is the development of an efficient, cost effective (and, ideally, quick) lending system. Today that means an industry standard digital infrastructure, an online channel with calculators and ease of customer entered data, and a customer journey through automated verification, validation and decision making, using 'industry standard decision logic'.[14]

Recognising a continued investment need, Five Lamps has pursued regular development of its digital infrastructure to reduce lending costs and meet the expectations of customers, which often prioritise ease, accessibility, and speed of service over the total cost of lending. Furthermore, given the need to process key applicant data such as a National Insurance number, a bank account for Direct Debit payments, a valid bank debit card and the running of credit checks, the development of industry standard digital infrastructure allows Five Lamps to integrate its digital systems with mainstream financial services infrastructure (increasing speed and efficiency).

[13] See Henry, N. and Morris, J. (2017) Consumers, Credit and Scaling Affordable Lending: A Literature and Evidence Review. A Report to Responsible Finance;

[14] https://www.fivelamps.org.uk/wp-content/uploads/2016/02/Five-Lamps-Social-Impact-Report-2014.15.pdf

Five Lamps has invested in both their online platform and automated lending decisions to offer a comparable customer journey to that offered by the high cost lenders that it seeks to compete with, whilst incorporating any additional affordable lending information requirements and acting as a 'gateway or touch point' for referral to other debt, advice and financial support services.

Third, online remains part of a multi-channel offer, sitting alongside telephone and shop-based lending to support borrower preferences and integrated service provision. The multi-channel approach has been partly driven by the preferences of different funding and service partners (see, for example, the Conduit Scotland partnership) but Five Lamps has remained open to testing and service provision through different channels alongside seeking common, 'front' and 'back' office systems across its subsidiaries and partners.

Fourth, **partnership working and piloting (and trial and error)** has supported the drive for integrated services, scale and innovation to overcome the barriers to a scaled and effective affordable lending offer. Time consuming, resource intensive and requiring high level commitment, the development of today's lending capability reflects long term strategic engagement with stakeholders and partners throughout the business and delivery model. This includes with funders, investment intermediaries, delivery partners (market access channels, systems, borrowers, post-loan management, referral and support services), researchers, sector organisations and policymakers.

Fifth, strong business-orientated governance and a commitment to demonstrating impact. From the start Five Lamps has continually evolved its organisational framework including, for example, renaming and launching a trading arm. In an era when social impact reporting has grown in stature, along with a plethora of guidance and tools as to how to evidence it, Five Lamps was an early adopter and has continued to develop its reporting to meet the needs of stakeholders. Evidence of its success in doing so is widespread, from winning numerous awards to securing bank and social investment in a market which has struggled to invest in smaller social ventures and /or 'riskier', non-property based, social impact investments.

3.4 What's next?

Five Lamps has established a sustainable model for its personal lending service and is now strongly committed to expanding its activity, developing a range of new routes to market and building productive relationships with a range of partners. Some of these routes will have a local focus while others will have national reach, and involve working with leading private sector companies.

Growth will be predicated on £5 million of social investment which will enable over 20,000 loans per annum by 2022. The announcement of £55 million of funding for financial inclusion from the dormant bank account proceeds, early in 2018[15], is seen by Five Lamps to present the opportunity to present a compelling case to invest a proportion of the money to capitalise the personal lending responsible finance sector. For Five Lamps, any such initiative could provide a substantial multiplier to the growth trajectory envisaged in the recent investment prospectus.

[15] https://www.gov.uk/government/news/government-unlocking-330-million-from-dormant-accounts-to-build-a-fairer-society

4 Scaling Affordable Lending: Scotcash

4.1 Who are they?

Scotcash was formed in January 2007 as an outcome of Glasgow City Council's financial inclusion strategy and, principally, as a response to the high levels of doorstep lending taking place in the city.[16] Scotcash is a not-for-profit social enterprise, Community Interest Company (CIC) and responsible finance provider. It began as a partnership between Glasgow Housing Association and Glasgow City Council who, along with the Royal Bank of Scotland (RBS), the Scottish Government and Communities Scotland, provided a mixture of initial funding and support.

Scotcash's continued mission remains to contribute to a reduction in financial exclusion in local communities by increasing access to affordable loans, basic bank accounts, high quality money advice and other financial products. Loans are offered at 113.3% APR, an interest rate designed to reflect the level of credit risk in their target market as well as seeking to cover the cost of provision. This rate is higher than that charged by credit unions but substantially lower than that of payday lenders.

Today, Scotcash has extended beyond Glasgow to cover substantial parts of Scotland's urban population who suffer from deprivation.

Within 18 months of opening its office in Glasgow, 1,500 people had taken a loan from Scotcash, it had helped more than 300 people open a bank account and 140 open a savings account with a credit union.[17] Recognising these achievements, in 2010 an independent evaluation noted Scotcash to be one of the most successful organisations in the UK at targeting financial exclusion in low income urban areas, with beneficiaries shown to be both income poor and asset poor.[18] Importantly, savings rates had also increased amongst clients and the use of home credit had decreased over a two year period (and in comparison to increased usage rates amongst a control group compared to Scotcash clients).

In 2010, after an initial trial, Scotcash extended its geographical coverage from the city centre office to include the seven council areas surrounding Glasgow City (covering a roughly 25 miles radius), although still based on specific postcodes targeted on the basis of levels of deprivation and doorstep lending. In addition, a new service, G-Heat, was integrated in to the service mix through a partnership established with Glasgow Home Energy Advice Team. Reinforcing a delivery model based on physical presence, in 2011 an outreach facility in Springburn, Glasgow was opened in partnership with North Glasgow Housing Association. Notwithstanding this focus on face-to-face delivery, a small grant from Big Lottery Fund was won to undertake a feasibility study to extend delivery channels to telephone and online and explore the potential of digital infrastructure.

In 2013, the award of a four-year Big Lottery Fund (BLF) Financial Inclusion in the Community Grant saw Scotcash build on the outreach model developed with North Glasgow

[16] http://www.gov.scot/Topics/Built-Environment/regeneration/pir/learningnetworks/cr/casestudies/Scotcash

[17] https://www.gov.uk/government/case-studies/scotcash

[18] Mosley, P. (2010) Scotcash Impact Evaluation Report Executive Summary, University of Sheffield, 21 October

Housing Association, providing the facility for additional outreach facilities in key co-location opportunities with partners in the East, West and South of Glasgow. In parallel, a £50,000 grant from RBS supported the recommendations of the previous BLF feasibility study to develop greater online contact and other channel delivery to prospective and existing clients.

Today, Scotcash offices are to be found in Edinburgh[19] (funded by £300,000 from Virgin Money Foundation[20]) and Inverclyde[21] (funded by £150,000 grant from the Council), as well as two branches in Glasgow (city centre and North Glasgow). This expansion has seen a consequent extension of local and regional partnerships. Bank partners have been extended (for example to include Virgin Money[22] and Bank of Scotland[23]), service relationships exist with half a dozen credit unions[24] and housing associations remain key partners through which to engage clients. A new telephone lending service has been launched and, most recently, online applications (including through the national Affordable Lending Portal). In 2017, using its telephone and online capability, Scotcash extended its operating area to cover the whole of Scotland, and then the UK bar London.

SAVED BY CUSTOMERS IN INTEREST PAYMENTS

over the past 10 years, alongside improved wellbeing and financial behaviour.

£5 million

Over 10 years, Scotcash has made almost 20,000 personal loans reaching over £8 million in value. Clients have been supported to open around 2,500 basic bank accounts with local banks alongside circa 700 credit union savings accounts. Almost 6,000 clients have received money and debt advice. Recent evaluations of the initial North Glasgow outreach model and the Big Lottery Fund Financial Inclusion Programme[25] continue to provide strong evidence of these outputs being generated amongst the poorest and most vulnerable communities of urban Scotland.[26] Of most significance, alongside the short term interest savings to clients (calculated at £5 million) and a range of other 'soft outcomes' on wellbeing, evaluation over the last 10 year has shown changes in financial behaviour as clients have absorbed key messages around financial management and lending alternatives.

These impacts have seen Scotcash win awards, from overall winner of the Guardian Public Services Awards as early as 2008[27], to the Giordano Dell'Amore Microfinance Good Practices Europe Award in 2015 which recognizes institutions that are committed to fostering access to mainstream finance for disadvantaged people.[28]

[19] https://my.virginmoney.com/2017/02/15/scotcash-meets-edinburgh-funding-virgin-money-foundation/
https://www.scotcash.net/news/2017/02/scotcash-expansion-–-coming-soon/

[20] https://my.virginmoney.com/2017/02/15/scotcash-meets-edinburgh-funding-virgin-money-foundation/
https://www.scotcash.net/news/2017/02/scotcash-expansion-–-coming-soon/

[21] https://www.inverclyde.gov.uk/news/2017/jun/council-funds-provision-of-low-cost-loans

[22] https://www.scotcash.net/news/2016/03/partner-virgin-money/

[23] https://www.scotcash.net/news/2018/01/new-partnership-with-the-bank-of-scotland/

[24] https://www.scotcash.net/news/2017/03/new-partners-pioneer-mutual-credit-union/

[25] https://www.scotcash.net/media/66655/Scotcash-BLF-Evaluation-Summary-Final.pdf

[26] For example, the BLF evaluation found that 5 out of 6 interviewees had used some form of sub-prime credit or the Social Fund in the last five years.

[27] https://senscot.net/loan-star/

[28] http://responsiblefinance.org.uk/2015/06/scotcash-wins-giordano-dellamore-microfinance-good-practices-europe-award-2015/

4.2 Integrated services to reduce financial exclusion

Scotcash was designed as an alternative to high cost consumer credit, especially doorstep lending, and as a potential stepping stone to credit unions and other inclusion products such as basic bank accounts. In building a personal relationship with clients the aim is to provide other support services such as welfare, money and debt advice alongside loans to increase financial independence and resilience.

The key feature of Scotcash is that it provides all of these services as much as possible 'in-office'[29]. This is because the Scotcash model has been driven both by a 'personalised' model that understands the 'typical' client, a low income mother with young children in rented housing trying to juggle time, children, buggies, transport and money to access services often located in numerous scattered sites. From the start Scotcash has designed its service around the physical location of a 'one-stop' shop to provide the required package of services to support financial independence and resilience ('and to maximise keeping the individual within the intervention system'). It seeks to build and operate a community banking or community finance model[30] but sits in contrast to the common affordable finance offer in which disparate organisations refer customers between each other.

2,500

BASIC BANK ACCOUNTS HELPED TO OPEN

alongside circa 700 credit union savings accounts.

On opening in 2007, Scotcash deliberately chose an accessible shop front location in the centre of Glasgow. Within its Glasgow office it provided in house loan advisors able to approve instant access loans and signpost to other providers such as credit unions. Moreover, customers could potentially open a credit union savings account alongside their initial loan. Scotcash's 'trusted partner status' with RBS (and subsequent integrated partnership with Barclays) allowed office staff to open Basic Bank Accounts without clients needing to visit the bank. The office included two full-time Citizens Advice Bureau staff on site, offering money advice on benefits, budgeting, debt and other financial matters.[31]

In time the Glasgow Home Energy Advice Team (G-Heat) was added to the package of services. Established to help people in Glasgow make their homes more energy efficient, alongside home visits, again the service included weekly advice and information surgeries in the Scotcash office. Foodbank vouchers for Trussell Trust were also added to the office-based support of Scotcash.

It is this 'physical, embedded location in the market' model which has seen the development of the 'outreach model' by Scotcash in response to demands to geographically extend their services. Like the original partnership office model, subsequent outreach posts in Glasgow are based on 'co-location' with partners who are closely linked or engaged with target clients (for example social landlords). Scotcash now operates a similar office model in Edinburgh and Inverclyde.

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[29] http://www.scottishpolicynow.co.uk/article/community-finance-can-challenge-money-market-failure

[30] http://responsiblefinance.org.uk/cic/community-banking-charter/ and See Henry, N. and Morris, J. (2017) Consumers, Credit and Scaling Affordable Lending: A Literature and Evidence Review. A Report to Responsible Finance, Section 4.4.

[31] http://www.gov.scot/Topics/Built-Environment/regeneration/pir/learningnetworks/cr/casestudies/Scotcash; https://www.european-microfinance.org/sites/default/files/document/file/Financial%20inclusion%20in%20the%20community.pdf

In terms of customer profile, Scotcash predominantly serves low-income households (61%), with the majority of customers being working-age women (72%). A large proportion of customers are single parents (39%) or single person households (31%). More than half are social housing tenants and the remainder tend to rent in the private sector or live with relatives. The most common reason for taking out a loan is to pay for Christmas expenses (36%), followed by home improvements (30%).[32] Customer satisfaction, as measured through a customer survey conducted in 2015/16 and 2016/17, was high, with a large proportion of customers reporting that the loan they received improved their financial circumstances (92% in 2015/16 and 88% in 2016/17).[33]

CUSTOMERS GIVEN MONEY AND DEBT ADVICE

with strong evidence of outputs being generated amongst the poorest and most vulnerable communities of urban Scotland.

6,000

Arlene – A Scotcash Customer Case Study

Arlene is a single mother with three young children and works full time. After passing the Scotcash office on a number of occasions and receiving a leaflet about the loan service, she decided to apply for a loan with Scotcash rather than turn to Provident as she had done in the past.

She used her Scotcash loan to pay for Christmas gifts for her children and get her through an expensive time of the year. Alongside her loan she also decided to save with a credit union, as a saving fund was something she had thought about in the past with the view to borrowing from them in the future. After the initial loan she has taken out several subsequent loans from Scotcash to pay for holidays, while continuing to save, as well as more recently borrow with the credit union. Arlene has explained that borrowing from Scotcash and the credit union are much more affordable than borrowing from Provident.

Arlene said: "My experience with Scotcash has been very positive and the office is handy in the City Centre. I was on a good income but was sick of struggling to pay back the weekly repayments to Provident. Now I have money in the bank and am much better off."

Source: https://www.scotcash.net/customer-stories/arlene-simpson/

Recognising new financial behaviours, the need for cost efficiencies and the march of digital platforms, Scotcash has been steadily developing its 'at a distance' customer service. Customers can now apply for loans over the phone and online as well as face-to-face. Continual automation is being sought in the lending process although Scotcash requires a variety of 'documents and paperwork' (bank statements, photo ID, residence, etc.) in order to process loans and automation remains on-going (and in-line with broader developments in e-governance and digital banking). With the expansion of on-line provision, Scotcash is investigating the ability to provide on-line wrap-around services alongside lending (for example, through chatbots).

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[32] https://www.scotcash.net/media/71687/Annual-Report-2016-17-Single.pdf

[33] https://www.scotcash.net/media/65128/Scotcash-Annual-Report-2016-17.pdf and https://www.scotcash.net/media/71687/Annual-Report-2016-17-Single.pdf.

4.3 Scaling up

An integrated services model through strong and mutual partnerships has been core to Scotcash's origins, development and move to sustainability. Ten years on, original founding and delivery partners remain and have been joined by similar partner organisations and institutions as service breadth and reach has been grown. As of today, Scotcash's combined infrastructure of market presence, integrated services model and multiple lending channels is delivering ever greater opportunities to reach financially vulnerable and excluded communities in (urban) Scotland and provide routes to financial independence and resilience.

Nevertheless, notwithstanding long run and sustained core funding, Scotcash has faced moments of strategic uncertainty in its lifetime and its growth trajectory has not been consistent (see Table 3.1).

Table 4.1 Scotcash Financial Inclusion Outputs (2007 – 16)

	Year						
	Period 2007-10 (inc. annual average)	10-11	11-12	12-13	13-14	14-15	15-16
Enquiries (n)	8,724 (2,908)	3,358	3,508	2,657	3,286	4,049	5,488
Approved (n)	7,339 (2,446)	1,291	1,467	1,522	1,792	2,516	3,283
Value (£)	1,796,317 (598,772)	739,000	807,192	807,624	866,705	1,167,572	1,695,455
Basic bank accounts (n)	810 (270)	227	412	279	409	233	126
Credit union accounts (n)	246 (82)	71	47	55	100	97	110
Money and debt advice (n)	1,520 (506)	674	1,076	756	631	595	357

After its initial launch, Scotcash had several years of incremental and uneven expansion. Significantly, in 2011, as part of the support provided by Glasgow City Council, Business Development Manager Sharon MacPherson was seconded to Scotcash to help it grow. In 2013, she became Chief Executive.

Around this time, the Council and Glasgow Housing Association also developed a financial strategy 'to establish ways in which Scotcash could develop its financial strategy to become independent and sustainable over the long term'.[34] Following review of the delivery model and its financial metrics, the process appraised a range of strategic options to move from an annual subsidy driven business model to a longer term and financially independent approach. This resulted in a five-year sustainability strategy.

[34] http://indigohousegroup.com/project/financial-strategy-development/

Alongside the strategy, in 2013 a clear 'step-change' in scale of outputs was triggered by winning a £1m Big Lottery Fund Financial Inclusion in the Community Grant and which has facilitated an increase in activity over the subsequent four years. Furthermore, after nearly a decade, Scotcash's demonstration of effective impact on financial exclusion has resulted in a number of new supportive developments. [35] Thus, by 2016, alongside considerable lending growth, Scotcash was noted as 'closing in on viability' (Peat, 2016: 8)[36], reaching sustainability by 2018, and possibly moving to 'sustainability plus' and further expansion.[37]

Reviewing Scotcash's journey to scale, we can identify a number of elements.

First, long run and sustained funding, and other forms of support, from its key partners Glasgow City Council and Glasgow Housing Association. Policy evaluation has demonstrated that Scotcash is a highly efficient and effective award winning affordable lender delivering substantial economic and social benefits. However, it has required a decade of (financial) support to move from an annual subsidy driven model towards financial sustainability. It is expected that the expansion of on-line provision will help to achieve this. Scotcash has demonstrated a pathway to sustainability but has at the same time shown that it takes time and sustained funding to reach this status.

Second, the successful Scotcash integrated model is built on deep, purposeful and sustained partnerships. Scotcash's delivery model rationale is that "no one provider can address the financial needs of low income households - a mixed economy of provision is needed to bring about improved access and help vulnerable communities improve their financial outlook… This means different concerned organisations collaborating and not working in isolation".[38] Scotcash has both 'crossed' the divide between responsible finance providers and credit unions and worked closely with high street banks, with particular support from RBS. Partnership has been integrated in to policies and procedures allowing, for example, financial activities and services to be undertaken with, and on behalf of, partners (such as account opening). In key cases partnership has also been the marketing model and route to market, for example housing associations.

Third, given deep knowledge of the target consumer, the core delivery model has been a physically embedded location 'in the market'. Scotcash launched with a prominent high street 'one stop' office and has maintained its commitment to community based physical access to its services. The model has evolved to entail 'hub offices', 'pop-ups' and other co-location opportunities with partners but remains committed to local access opportunities to achieve client engagement. The model has remained steadfast in the face of 'fintech solutions' given Scotcash's deep knowledge and understanding of its target clients.

Fourth, nevertheless, Scotcash has recently embraced multiple channels and digital infrastructures in recognition of changing consumer dynamics and the efficiencies of online platforms and digital processes. New consumer groups – which still face financial exclusion – are increasingly attuned to 'at distance' services including the rapidly expanding provision of financial inclusion services 'at a distance'. Similarly, automated lending systems, open banking and other developments hold out the possibility of cheaper and quicker lending activity. Articulating the balance of physical location versus distance services, and how this relates to consumer segments and costs of delivery, is a continuing issue.

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35 For a useful statement at the end of 2016 see https://strathprints.strath.ac.uk/58540/1/Peat_IPPI_2016_after_payday_lending_accessible_and_affordable_credit.pdf

36 https://strathprints.strath.ac.uk/58540/1/Peat_IPPI_2016_after_payday_lending_accessible_and_affordable_credit.pdf

37 https://www.scotcash.net/media/66655/Scotcash-BLF-Evaluation-Summary-Final.pdf

38 http://www.scottishpolicynow.co.uk/article/community-finance-can-challenge-money-market-failure

4.4 What's next

Scotcash was named as one of the leading community lenders in the UK (Carnegie UK Trust, 2016).[39] In its recent report into the 'poverty premium', Citizens Advice Scotland describes Scotcash as "one of the most successful responsible finance providers currently operating in the UK" and strongly recommends that the Scotcash model be replicated across Scotland, to enable low-income consumers to access affordable finance products and services.[40] As Scotcash moves to completion of its 2014-18 Business Plan it similarly believes that "Glasgow's vision of financial inclusion could apply equally across Scotland and the UK"[41].

In delivering that ambition the organisation has recently taken two key strategic decisions. First, to extend its lending activity to the UK (bar London), recognising that volume remains the key to fully self-generated financial sustainability. Second, and holding to the service model of Scotcash, active investigation, piloting and investment into the digital offering of wrap-around services to continue to offer the depth of intervention it has shown can change financial behaviour.

[39] https://www.carnegieuktrust.org.uk/publications/gateway-affordable-credit/

[40] https://www.cas.org.uk/system/files/publications/poverty_premium_0.pdf

[41] http://www.scottishpolicynow.co.uk/article/community-finance-can-challenge-money-market-failure

5 Scaling Affordable Lending: Fair For You

5.1 Who are they?

Fair for You Enterprise CIC is a not-for-profit Community Interest Company (CIC) owned by Fair for You Ltd, a registered charity. The charity and CIC were set up with the aim of alleviating poverty by providing affordable credit to finance the purchase of essential items by low-income households. The lending subsidiary launched in December 2015, following approval from the Financial Conduct Authority (FCA) in November 2015.

People often need to replace household items, such as broken washing machines, but are unable to access mainstream credit to finance this. Given this they often turn to the 'rent-to-own' sector. Rent-to-own is a form of credit which spreads the cost of purchasing consumer goods by allowing the borrower to lease the consumer good in exchange for a weekly or monthly payment. They then have the option to purchase the good at some point during the agreement. The number of consumers per year taking out such a loan has remained steady at 200,000 over the past five years. 400,000 people had outstanding rent-to-own debt at the end of 2016.[42]

Rent-to-own products are often criticized for the high cost of items, lack of price-transparency, and failure to communicate risks to potential customers.[43] As a result, using rent-to-own stores can exacerbate the often already precarious financial situation of customers. According to a 2016 survey of rent-to-own customers by Citizens Advice, a third had missed one or more payments on their item(s), and more than half of customers had taken on additional debts in order to keep up with payments. A quarter of customers had not been able to pay other bills such as their rent, council tax, or television licence after falling behind on their weekly rent-to-own payments. When customers missed payments, half felt that they were not treated fairly and only 10% of customers unable to keep up with payments were offered a payment holiday.[44]

Given the reliance of many consumers on rent to own products, the need was identified to provide a lower-cost, responsible alternative. In 2014 the All Party Parliamentary Group (APPG) on Debt and Personal Finance recommended that the FCA authorise challengers to existing 'rent-to-own' firms such as BrightHouse, with Fair for You mentioned as a possible example.[45] Such calls have become louder given substantial fines levied recently by the FCA on major providers in the rent-to-own sector due to their unfair treatment of customers.[46]

Other responsible rent-to-own schemes do exist beyond Fair for You, such as Furniture4U operating in Bolton in partnership with Hoot credit union, The Store operating in County Durham in partnership with the Prince Bishop Community Bank and the Own Your Own scheme for housing association tenants operating in the Newcastle area in partnership with Moneywise credit union.

[42] FCA High-cost credit Including review of the high-cost short-term credit price cap 17/02 (July 2017), Table 3.4

[43] APPG on Debt & Personal Finance – Report from the inquiry into the Rent to Own sector. February 2015. http://www.appgdebt.org/wp-content/uploads/2017/08/APPG-RTO-Inquiry-report-10-2-15web.pdf

[44] Yusuf, H. & Lane, J. 2016. Hire Purchase: Higher Prices - Problem debt in the rent to own market. Citizens Advice. https://www.citizensadvice.org.uk/Global/CitizensAdvice/Debt%20and%20Money%20Publications/FINALRENTTOOWNREPORT%20(4).pdf

[45] Gibbons, D. 2016. The Social Impact of Fair for You: First Report. Centre for Responsible Finance. https://www.responsible-credit.org.uk/wp-content/uploads/2016/05/The-social-impact-of-Fair-for-You-final.pdf.

[46] See Henry, N. and Morris, J. (2017) Consumers, Credit and Scaling Affordable Lending: A Literature and Evidence Review. A Report to Responsible Finance, Section 3.6.

A key difference between the majority of these schemes and Fair for You is that the latter is able to offer a national scheme to 'the general population' as it is not constrained by the geographic or membership ('common bond') restrictions of credit unions.

In 2015 Fair for You secured £1.7 million in loans from the Esmée Fairbairn Foundation, Joseph Rowntree Foundation, Tudor Trust and the Barrow Cadbury Trust, and grant funding from Garfield Weston Foundation and the JP Morgan Chase Foundation.[47] In March 2017 Fair for You secured a further tranche of funding in a joint funding round including the Esmee Fairbairn Foundation, the Joseph Rowntree Foundation, and the Tudor Trust. This included £250,000 from Social Investment Scotland and £250,000 from the Robertson Trust.[48]

In November 2017, Big Issue Invest granted a £1 million loan to Fair for You to help them expand their service[49], suggesting total funding raised by Fair for You to date of almost £6 million.[50] At this time it was also reported that Fair for You hoped to receive further funding from the Fair By Design fund, a newly launched social investment fund tackling the 'poverty premium'[51].[52]

In its first year of trading (December 2015 to December 2016), Fair for You completed 3,787 loan agreements, totalling over £1 million in loans.[53] The estimated customer savings over this period were more than £2 million compared to the cost of obtaining the same items through rent-to-own stores.[54] In the 22 months up to the beginning of November 2017, Fair for You lent out a total of £4 million.[55] Subtracting the £1 million lent out in 2016, this means that in the first ten months of 2017 the volume of loans was around £3 million. Even before completing the full 2017 year this represents a three-fold increase in lending value compared to 2016.

[47] http://sector4focus.co.uk/fair-for-you-a-new-era-in-lending/ See also: Fair for You Annual Review 2015. Available at: http://www.fairforyou.org.uk/wp-content/uploads/2017/02/ffy-annual-report-september-2015.pdf.

[48] https://www.therobertsontrust.org.uk/news/the-robertson-trust-and-social-investment-scotland-invest-in-ethical-lender

[49] The Big Issue. 2017. "Big Issue Invest helps Fair for You to tackle high-cost lenders with £1m loan". December 14, 2017. https://www.bigissue.com/news/big-issue-invest-helps-fair-tackle-high-cost-lenders-1m-loan/

[50] Bounds, A. 2017. New £20m fund to invest in companies helping the poor. Financial Times, 9 November 2017. https://www.ft.com/content/ceae7356-c4a1-11e7-a1d2-6786f39ef675

[51] The poverty premium describes the situation which has arisen in the UK whereby poorer people pay more for essential goods and services. Recently this was estimated at an average £490 per household, see http://www.bristol.ac.uk/media-library/sites/geography/pfrc/pfrc1614-poverty-premium-key-findings.pdf

[52] Bounds, A. 2017. New £20m fund to invest in companies helping the poor. Financial Times, 9 November 2017. https://www.ft.com/content/ceae7356-c4a1-11e7-a1d2-6786f39ef675

[53] Gibbons, D. and Nixon, B, 2017. The Social Impact of Fair for You: Third Report. Centre for Responsible Finance, March 2017. https://www.responsible-credit.org.uk/wp-content/uploads/2017/03/The-Social-Impact-of-Fair-for-You-Report-2017.pdf.

[54] Gibbons, D. and Nixon, B, 2017. The Social Impact of Fair for You: Third Report. Centre for Responsible Finance, March 2017. https://www.responsible-credit.org.uk/wp-content/uploads/2017/03/The-Social-Impact-of-Fair-for-You-Report-2017.pdf.

[55] Bounds, A. 2017. New £20m fund to invest in companies helping the poor. Financial Times, 9 November 2017. https://www.ft.com/content/ceae7356-c4a1-11e7-a1d2-6786f39ef675

5.2 Delivering affordable loans to buy household goods

Initial consumer research was carried out in 2014 to identify the credit needs of low-income families. This confirmed findings from previous research that borrowing to pay for one-off and unexpected expenses was one of the most common reasons for a household to get into debt, including subsequent problems of repayment when taking out unaffordable credit from high cost lenders. The research identified the criteria that a responsible and affordable credit provider should meet, including clarity of cost, absence of hidden fees, flexibility, brand visibility, reliability and consistency.[56]

Fair for You provides unsecured loans for customers to buy goods through its online shop. While the practical outcome for customers is the same as that provided by a rent-to-own firm – the customer is able to acquire the item without having to pay for the full cost upfront. This model differs in important respects from a rent-to-own agreement. In a rent-to-own or hire-purchase agreement, ownership of the item remains with the firm until the customer completes all payments in the agreed contract, with the store able to repossess the item if the customer fails to keep up with payments. Because all goods remain the property of the rent-to-own firm until the point of complete repayment, firms often insist that customers take out expensive insurance policies against damage or theft.

Fair for You loans are unsecured with customers gaining ownership from the moment they purchase the item, thus eliminating the need for compulsory insurance plans. Fair for You has partnered with a number of consumer brands selling home appliances, furniture, and baby essentials, who pay commission for each item purchased through the online shopping site. This commission is one of the two sources of income generated by Fair for You, the other being the interest charged to customers.

SAVED BY CUSTOMERS IN INTEREST PAYMENTS

over the first year, compared to the cost of obtaining the same items through rent-to-own stores.

£2 million

Interest on all loans is 3% a month (equivalent to representative 42.6% APR, which is the same as the interest rate cap for credit unions). This is significantly lower than the circa 70% APR charged by the mainstream competitors BrightHouse and PerfectHome. Moreover, as customers buy directly from retailers items are more competitively priced than tends to be the case in rent-to-own stores where prices of goods are often inflated compared to the cost of the same item from other retailers.[57] Agreements with suppliers are in place to avoid additional delivery costs and to remove old items, highlighting the types of 'hidden costs' that can materialise in this form of lending.[58] As a result, the total cost of goods is much lower when purchased through Fair for You with detailed analysis finding a saving of at least £527 per item against mainstream rent-to-own providers.[59]

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[56] Fair for You Annual Review 2015. Available at: http://www.fairforyou.org.uk/wp-content/uploads/2017/02/ffy-annual-report-september-2015.pdf.

[57] For example, a Samsung Smart TV (model UE55MU6120KXXU) was advertised on the BrightHouse website for £641.51, but the same TV is available from Samsung for £569 (prices correct as of 22/03/2018).

[58] https://www.fairforyou.co.uk/wp-content/uploads/2015/12/Fair-for-You-July-2016-Newsletter.pdf

[59] Gibbons, D. and Nixon, B, 2017. The Social Impact of Fair for You: Third Report. Centre for Responsible Finance, March 2017. https://www.responsible-credit.org.uk/wp-content/uploads/2017/03/The-Social-Impact-of-Fair-for-You-Report-2017.pdf.

Customers can browse the product catalogue on-line. Once they have found a suitable item they can choose the term of the loan and repayment frequency. A loan calculator allows customers to calculate their weekly or monthly repayment amount before they select an item, so they can ensure repayments are affordable. Once customers apply for a loan, a decision is typically made within a day. Repayment periods are flexible depending on customers' circumstances, ranging from 12 weeks to two years, and payments can be made on a weekly, fortnightly, monthly or four-weekly basis. Customers have the option of over-paying to reduce the total interest they pay. They can also arrange payment holidays if required.

£527

SAVED PER ITEM

when purchased with Fair for You, compared to mainstream rent-to-own providers.

Customers are asked to provide bank account details so Fair for You can check their bank account history (up to 90 days). A credit reference check is also completed. A substantial number of applicants are rejected based on their credit history and affordability assessment, as well as because they are 'invisible' or have 'thin files' when credit checks are undertaken.[60] While current figures are unavailable, during the period November 2015 to March 2016 the approval rate for applicants was reportedly 25%.[61] When an application is rejected the applicant is signposted to independent sources of debt advice.

Fair for You has gradually expanded the products it offers. The initial offering was limited to white goods (washing machines, fridges, etc.) as these were considered most essential to households. In April 2016 this was expanded to also include basic baby items such as cots and buggies. In Autumn 2016 laptops and TVs were made available for purchase to customers with a good history of keeping up payments. Fair for You added vinyl flooring and carpets to their offering in early 2017[62] following the closure of many local authority welfare schemes which replaced the abolished Social Fund as these had supported local authority tenants looking to buy carpets or flooring.

[60] See Henry, N. and Morris, J. (2018) Scaling Up Affordable Lending: Inclusive Credit Scoring. A Report to Responsible Finance

[61] Evans, G. and Allison, C. 2016. Better and Brighter? Responsible Rent to Own Alternatives. Financial Inclustion Centre. http://inclusioncentre.co.uk/wordpress29/wp-content/uploads/2016/03/Better-and-Brighter-Responsible-RTO-Alternatives-Full-Report-150316-1.pdf

[62] Gibbons, D. and Nixon, B, 2017. The Social Impact of Fair for You: Third Report. Centre for Responsible Finance, March 2017. https://www.responsible-credit.org.uk/wp-content/uploads/2017/03/The-Social-Impact-of-Fair-for-You-Report-2017.pdf.

Danielle – A Fair For You Customer Case Study

Danielle is a community support worker and carer for her eldest son. With three children under the age of seven, she never sees the end of her washing, so when her washing machine broke she didn't have the time or resources to get another. She had tried buying second hand in the past but found that in the long run she was spending more as the appliances did not last as long. But when she had tried to pay in instalments from rent-to-own stores in the past, she had not had a good experience either. Despite the tumble dryer she had purchased from BrightHouse breaking down and becoming unusable, the company still insisted on continued repayments. They even threatened to come to her house and repossess the item.

Since being with Fair for You, Danielle has bought a washing machine, tumble dryer, fridge freezer and, once she was a member of the Good Payers Club, a laptop. Fair for You has helped her family, and she says it's had a positive impact on her children's well-being because she has been able to provide everything they need. When her washing machine broke down she was able to get another one within 3 days of submitting her application online.

Danielle says: "I did use Brighthouse for my old tumble dryer and I found that the repayment rate was very high, customer service pretty much nil, and if it broke you have to wait 3-4 weeks before they would sort anything out. I find that for one, the Fair for You interest rates are lower. It's easier to afford – you're not asking for high sums of money per week. When I took out my loan I was offered several ways to repay the loan each week. That was good because I could set a budget that I could actually keep to. Having a new alternative puts you more at ease, knowing you don't have to go to these high street stores paying a stupid amount of money."

Source: https://www.fairforyou.co.uk/blog/

5.3 Scaling up

Fair for You has reached annual lending of around £3 million in only its second year of trading. Analysis of customers has shown that Fair for You applicants closely match the customer profile of existing high-cost lenders in the rent-to-own sector. The APPG on Debt and Personal Finance's Inquiry into the rent-to-own market identified that customers tended to be aged 22-49, with 60% having children and around half being wholly or partially reliant on benefit income.[63] In February 2016 survey work for Fair for You found that the overwhelming majority of applicants were female (73%). Customers tended to be in their twenties or thirties, with 60% aged 25 to 44. Two-thirds of customers had dependent children, with the vast majority of these being single parents. Just over half of all customers lived in a household with someone in work (52%). Of those households with someone in employment, in nearly 40% of cases this was part-time work. The median income of surveyed customers was £170 per week, which places them in the poorest 25% of the income distribution. Around three quarters of this income was comprised of benefits, including child benefit.[64]

[63] APPG on Debt & Personal Finance – Report from the inquiry into the Rent to Own sector. February 2015. http://www.appgdebt.org/wp-content/uploads/2017/08/APPG-RTO-Inquiry-report-10-2-15web.pdf

[64] Gibbons, D. and Nixon, B, 2016. The Social Impact of Fair for You: Second Report. Centre for Responsible Finance. http://www.fairforyou.org.uk/wp-content/uploads/2017/02/The-social-impact-of-Fair-for-You_September_2016_final.pdf.

Fair for You is successfully competing with existing providers among the key demographic groups, with almost half of customers reporting that they had previously used rent-to-own stores. In addition, about half of customers had used other forms of high-cost credit in the past such as door-to-door lenders, mail order catalogues, and (to a smaller extent) payday loans.[65]

CUSTOMERS PREVIOUSLY USED RENT-TO-OWN STORES

and 1/2 has previously used other forms of high-cost credit, such as door-to-door lenders, mail order catalogues and payday loans.

1/2

Customer satisfaction is high. An ongoing survey of customers, which by March 2017 had received over 1,200 responses, showed that 88% of customers rated Fair for You as excellent and a further 10% as very good. Customers were particularly satisfied with the low weekly payments, the flexibility of repayments (with customers able to choose a longer or shorter repayment period depending on affordability), and the speed and simplicity of the application process. A follow-up survey conducted six months after customers had taken out a loan indicated further positive outcomes, with two-thirds of customers agreeing that since using Fair for You their ability to manage financially had improved.[66] Fair for You is one of the most trusted UK personal credit providers on Trustpilot, a customer review site.

Reviewing Fair for You's journey to scale-up, we can identify a number of elements.

First, is the scale of start-up, rather than scale–up. Or put another way, the scale of costs, time and personal effort (including tenacious and experienced leadership) required to even 'enter the market'. Attracting sufficient start-up funding was a major challenge given the substantial costs involved in research and gaining regulatory approval.[67] Fair for You Ltd (the charity which owns Fair for You Enterprise CIC) invested more than £500,000 over three years in the development of the initiative. Additionally, the start-up costs and operating costs for the first year to December 2016 amounted to £950,000.[68] Over the period substantial pro bono support was also received from a range of stakeholders.

[65] Gibbons, D. and Nixon, B, 2016. The Social Impact of Fair for You: Second Report. Centre for Responsible Finance. http://www.fairforyou.org.uk/wp-content/uploads/2017/02/The-social-impact-of-Fair-for-You_September_2016_final.pdf.

[66] Gibbons, D. and Nixon, B, 2017. The Social Impact of Fair for You: Third Report. Centre for Responsible Finance, March 2017. https://www.responsible-credit.org.uk/wp-content/uploads/2017/03/The-Social-Impact-of-Fair-for-You-Report-2017.pdf.

[67] Levitt, T. and Oldman, A. 2016. The Fair for You Journey to Market. Presentation at the Centre for Responsible Credit Improving Financial Services for Low-income Households conference, 27 January 2016; http://stats.learningandwork.org.uk/events_presentations/CfRC_jan_2016/Adrian%20Oldman%20Tom%20Levitt.pdf.

[68] Income from interest payments and commission during this first year totalled £230,000 meaning net costs were £720,000. https://www.responsible-credit.org.uk/wp-content/uploads/2017/03/The-Social-Impact-of-Fair-for-You-Report-2017.pdf.

Fair for You faced a 'chicken and egg' situation of proof of concept.[69] Regulatory approval was strongly reliant on proven governance, systems and trading relationships, yet achieving such relationships from key partners to demonstrate a robust business and delivery model was strongly reliant on regulatory approval. Fair for You found negligible room for 'intermediacy' in the complex process to build, test, and prove concept, and limited funding to support this development and start-up phase (reflecting a persistent critique of the UK social investment market).

Second, a critical outcome of the development phase was 'knowing the customer'. Fair for You undertook substantial market analysis drawing on, and combining, a variety of data. This analysis included large scale (national/aggregate/project) data available on customer demographics and lending behaviour in their target market; expert market research consultancy including focus groups and direct engagement with potential and existing customers to refine the service proposition[70]; and their own practitioner knowledge based on previous experience in the affordable lending sector.[71]

Third, this analysis informed the creation and robust development of a lending business model, including the initial targeting of a £1m loan fund. This process was fundamental given that, arguably, in recent years 'sub-prime' and/or 'poverty driven lending markets' have been characterised by the highest levels of volatility through the combination of drivers such as stagnant incomes, welfare reform, increased regulatory intervention and the rise of fintech. Lending models targeted at financially vulnerable households are highly sensitive to default rates and arrears, which can be relatively high and require substantial loan management. As of November 2017 around a fifth of the loan book was reported to be in arrears.[72]

Fourth has been utilisation of digital technology from inception, and the advances of fintech. Allowing a national offer, the website and portal has been designed and tested with target consumers and around what they have described as their 'points of difference' proposition as Fair for You. For example, the site has high visibility, is supported by social media, there is clarity of costs, the ability to instantly calculate the flexibility of a loan against a chosen product, and the site allows the applicant to enter easily in to a digital lending system.

Fifth, a commitment to social impact reporting and learning. Part of the start-up costs for Fair for You has been to commission a detailed multi-year evaluation of the social impact of the initiative from an expert and independent research and policy unit, the Centre for Responsible Credit.[73] In a series of Annual Reports, a customer focused evaluation has been able to examine in detail customer profiles, including credit records, lending behaviour (including journeys) and the social impacts of lending. Such social impacts range from the quantifying of savings made to a range of general well-being outcomes, including referral of those declined lending. Utilising both quantitative and qualitative analysis evidence of outcomes ranges from customer segments reached to individual customer case studies to calculation of return on social investment.[74]

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[69] Levitt, T. and Oldman, A. 2016. The Fair for You Journey to Market. Presentation at the Centre for Responsible Credit Improving Financial Services for Low-income Households conference, 27 January 2016

[70] http://shineresearch.co.uk/cast-studies/fair-for-you.html; http://www.fairforyou.org.uk/ffy-annual-report-september-2015.pdf

[71] https://justfinancefoundation.org.uk/blog/fair-for-you; https://www.socialenterprise.org.uk/fair-for-you

[72] Bounds, A. 2017. New £20m fund to invest in companies helping the poor. Financial Times, 9 November 2017. https://www.ft.com/content/ceae7356-c4a1-11e7-a1d2-6786f39ef675

[73] https://www.responsible-credit.org.uk/portfolio-items/building-financially-healthy-lives-and-communities/

[74] See the series of Reports at http://www.fairforyou.org.uk/reports/

This robust evidence base has supported activity across this flagship project and its demonstration of affordable lending solutions – from supporting assessment of the business model to awareness raising and marketing, advocacy, policy and regulatory input and raising further social investment.

5.4 What's next?

Fair for You continues to grow in its breadth of product offer and scale of lending. This, alongside continued refinement of its business model, is recognised as the pathway to a scaled-up and sustainable affordable lending solution which covers its costs. Having overcome an initial set of barriers to start-up, Fair for You's progress is raising a further set of barriers.

Operationally, two key issues have been highlighted which are central to the long term sustainability of a lending operation in these markets.[75] First is the lack of accurate and up-to-date credit information held by credit bureaus and its impact on assessing the creditworthiness of applicants. This can lead to declining applicants who could have received a loan or providing loans where there is increased risk of default and arrears.[76] Both impact on business model and sustainability. The second issue is a current 'quirk' of debt management practices, whereby Fair for You's good lending practices for individuals are 'penalised' in favour of mainstream rent-to-own providers, including to the detriment of the consumer.[77]

More fundamentally and challenging, however, is that whilst Fair for You's value for vulnerable consumers and for society has been demonstrated, as it stands current systemic frameworks - regulatory structures, banking and credit systems, and social investment policy – represent very substantial barriers to other start-ups and scale-ups hoping to achieve widespread affordable lending solutions in the UK today.

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[75] Gibbons, D. and Nixon, B, 2017. The Social Impact of Fair for You: Third Report. Centre for Responsible Finance, March 2017. https://www.responsible-credit.org.uk/wp-content/uploads/2017/03/The-Social-Impact-of-Fair-for-You-Report-2017.pdf.

[76] See Henry, N. and Morris, J. (2018) Scaling Up Affordable Lending: Inclusive Credit Scoring. A Report to Responsible Finance

[77] Gibbons, D. and Nixon, B, 2017. The Social Impact of Fair for You: Third Report. Centre for Responsible Finance, March 2017. https://www.responsible-credit.org.uk/wp-content/uploads/2017/03/The-Social-Impact-of-Fair-for-You-Report-2017.pdf.

6 Scaling Affordable Lending: The Just Finance Foundation

6.1 Who are they?

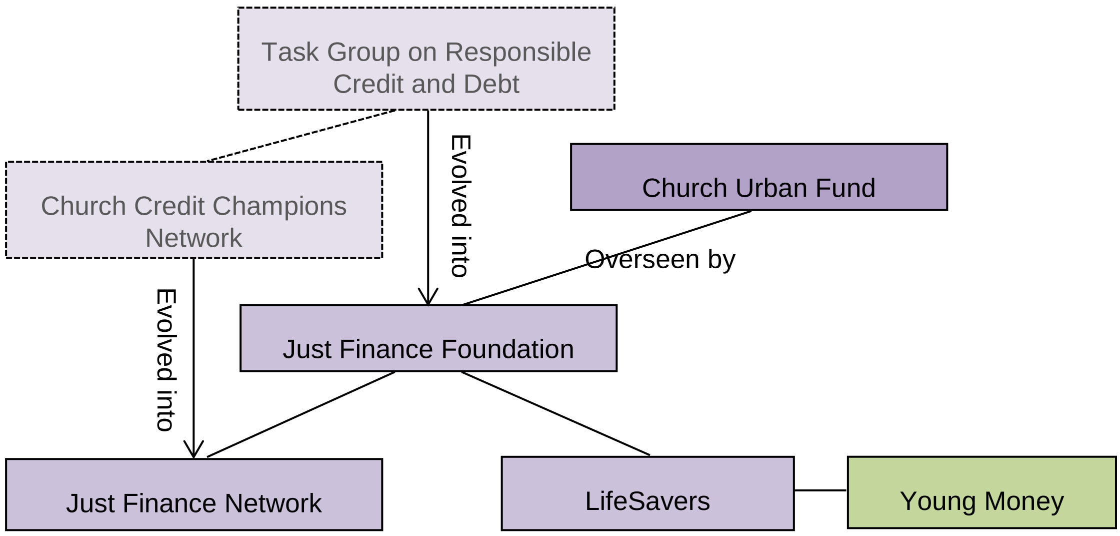
The Just Finance Foundation (JFF) was set up by The Archbishop of Canterbury Justin Welby in May 2016. It aims to create a fairer financial system focused on serving the whole community, where everyone has access to responsible credit, savings and other essential financial services.

Archbishop Justin Welby has for a number of years taken a personal interest in issues of personal finance and debt, particularly the damage caused by payday lending firms. In a speech to the House of Lords in June 2013, he argued that low-income households' reliance on payday loans and other high cost forms of credit was often due to the lack of affordable alternatives, and identified credit unions as an important part of the solution. He indicated that the Church of England could play a part in the development of credit unions through using the time and skills of its members.[78] This aim led to the establishment of a Task Group on Responsible Savings and Credit in 2014, which initiated the Church Credit Champions Network and the LifeSavers programme.

JFF comprises of two main programmes of activity. The first is the Just Finance Network (JFN), which seeks to promote access to affordable finance and help people manage their financial situations through debt advice and financial education. It seeks to support churches to actively engage with issues of money, debt and credit in their communities.

JFN is the successor of the Church Credit Champions Network. In 2016, following its pilot programmes, the Archbishop launched a fundraising campaign called the Mustard Seed Appeal to fund the creation of the Just Finance Foundation on a national scale. A second Mustard Seed Appeal is ongoing.

Figure 5.1 The evolution of the Just Finance Foundation



The second activity programme under JFN is LifeSavers, a national financial education and savings programme for primary school children. The LifeSavers programme is a partnership with Young Money (also known as Young Enterprise), a financial education charity who deliver the programme in Church of England schools.

[78] Archbishop's speech on Payday Loans in the House of Lords, 20 June 2013. https://publications.parliament.uk/pa/ld201314/ldhansrd/text/130620-0003.htm

7,000

PUPILS COVERED

in 71 schools, since the rollout of the programme in 2017.

The LifeSavers programme received initial funding from Virgin Money and the UK Government with the aim of rolling out the programme to 120 primary schools in 6 regions. It has subsequently received further government funding to make the training resources available to all schools through a dedicated website. As of August 2017, the LifeSavers programme had been rolled out to 71 schools, covering more than 600 staff and almost 7,000 pupils. On top of this, 550 teachers from other schools had participated in a training session.[79]

6.2 Facilitating a fairer financial system for the whole community

The Just Finance Network has developed out of the earlier Church Credit Champions Network operating in the dioceses of London, Southwark and Liverpool.[80] The Network provided training to volunteer Church Credit Champions, covering ways in which the church can engage with members of the community about financial issues, and practical guidance about different types of action churches can take to tackle money and debt problems. These champions lead efforts in their church to raise the profile of credit unions, including by signposting people to credit unions, organising mass sign-up sessions, and helping to set up branches in church buildings.[81]

The Church Credit Champions Network pilot programme ran for 3 years from 2014 to 2016, in three pilot areas, at a projected cost of £306,000.[82] Initial funding came from Lloyds Bank and the Jerusalem Trust, as well as the Church Urban Fund, the Bishop of London's Mission Fund, Together Southwark and London Catalyst.[83] Its aim was to train 300 credit champion volunteers and sign up 3,000 new credit union members.[84]

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[79] Hadfield, M. 2017. Credit unions join scheme to teach primary school children to save money. Cooperative News, 8 August 2017. https://www.thenews.coop/120777/sector/credit-unions/credit-unions-join-scheme-teach-primary-school-children-save-money/

[80] Archbishop's Task Group on Responsible Credit and Savings: Final Report. https://static1.squarespace.com/static/5406dac3e4b02d18666bcb68/t/56b9bff9c2ea513afa7d2be3/1455013883903/Task+Group+Final+Report.pdf and http://www.archbishopofcanterbury.org/articles.php/5339/archbishop-justins-speech-to-the-credit-union-foundation

[81] https://justfinancefoundation.org.uk/jfn/

[82] Social Return on Investment (SROI) analysis of the CCCN pilot programme, September 2015. https://static1.squarespace.com/static/5406dac3e4b02d18666bcb68/t/560a6695e4b0dc1dc38edb61/1443522197451/SROI+analysis+of+CCCN+1-pagerv2.pdf

[83] Church Credit Champions Network Annual Report 2014-15. https://static1.squarespace.com/static/5406dac3e4b02d18666bcb68/t/55ba25b1e4b0c45c8fd90a8a/1438262705640/CCCN+Annual+Report+2014-15+-+churches.pdf

[84] Social Return on Investment (SROI) analysis of the CCCN pilot programme, September 2015. https://static1.squarespace.com/static/5406dac3e4b02d18666bcb68/t/560a6695e4b0dc1dc38edb61/1443522197451/SROI+analysis+of+CCCN+1-pagerv2.pdf

By the end of 2016, more than 350 volunteers had been trained, and more than 3,500 people had joined a credit union.[85] In the London diocese a payroll savings scheme at North Middlesex Hospital, set up with help of the Church Credit Champions Network, resulted in 30 employees signing up in the first months, and over £50,000 being lent out to staff.[86]

CREDIT CHAMPION VOLUNTEERS TRAINED

By the end of 2016. The target had been 300.

350

As initial pilots progressed, it became clear that while raising awareness in churches through volunteers was valuable, more direct impacts could be realised by partnering with existing local services and initiatives such as food banks, mother and toddler groups, and church groups. It trained those delivering such services to spot whether someone might be having debt problems, establish connections with local debt advice agencies or responsible finance providers and signpost service users to the right place to get help. In some instances, debt advice agencies and credit unions set up in church buildings so that people coming into the church could more easily access these services.

3,500

PEOPLE HAD JOINED A CREDIT UNION

by the end of 2016. The target had been 3,000 people.

In 2016, the Church Credit Champion Network became the Just Finance Network. As the pilots in Liverpool, London and Southwark were deemed to have been successful, it was decided to roll out the programme to other areas of the UK beyond the pilot areas.[87] A website has been developed which contains resources to help churches to engage with their communities about money and debt issues. Thus far the JFN has expanded its activities into the Black Country and Newcastle, supported by funding from the Mercer's Company.

Since 2017 various dioceses involved in the JFN have been offering financial education training through local services such as food banks, social housing providers, schools and support groups for ex-offenders. The Cash Smart Credit Savvy course, funded by the Money Advice Service, is a 4 hour course (divided over two sessions of 2 hours) designed to teach participants how to save and budget effectively, how to calculate the cost of credit, and how to avoid high cost credit such as payday loans and expensive rent-to-own products.

[85] JFF Impact Report 2016. https://vimeo.com/217191600

[86] https://justfinancefoundation.org.uk/north-middlesex-hospital/

[87] http://www.archbishopofcanterbury.org/articles.php/5729/church-expands-network-of-support-on-money-and-debt

The course is sometimes delivered directly by a Just Finance worker, but often JFN will train people involved in community or church organisations to provide the course to their users themselves.[88] This way the Network has been able to reach a wide range of communities.[89] The programme makes use of a cascading model to encourage participants to share knowledge with others and spread financial capability messages. An evaluation of the programme by the Centre for Regional Economic and Social Research at Sheffield Hallam University is currently underway.[90]

The Just Finance Network has also been active in raising awareness around the problems associated with high cost credit and the need for responsible alternatives in the national media, by writing in newspapers such as the Guardian, the BBC and the Financial Times.[91]

LifeSavers is a financial education and savings programme for primary schools. It has two major strands: teaching training and curriculum development and savings clubs.

The LifeSavers programme was developed in response to an identified gap in the provision of financial education at the primary school level. It was recognised that children are often not developing the knowledge and skills needed to manage money well into adulthood, and one of the key aims of the programme is to improve their understanding of money and personal financial management. A secondary goal of the programme is to shape the values and attitudes that children have around money, in line with a Christian ethos. Increasing awareness of the benefits of credit unions among pupils and parents is a soft aim of the programme, but one which is achieved more indirectly through encouraging schools to set up savings clubs.

TEACHERS FROM OTHER SCHOOLS HAVE PARTICIPATED IN A TRAINING SESSION

expanding the programme's reach further.

550

In schools taking part in the full two-year programme, training is provided by Young Money to teachers to enable them to embed financial education into classroom teaching. Curriculum planning support is provided, as well as teaching resources to be used in the classroom. The classroom-based teaching is designed to be complemented with assemblies and/or collective worship sessions themed around money. Parents and carers are encouraged to get involved in their children's' financial education.[92]

Alongside financial education materials, the programme involves setting up a savings club for pupils to help them form a habit of saving small amounts of money. The savings clubs are usually operated in partnership with a local credit union, with pupils depositing money in a credit union account but with the school acting as an interface. Pupils are encouraged to get involved in running the clubs under the supervision of adult volunteers.[93]

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[88] https://www.cuf.org.uk/cash-smart-credit-savvy

[89] https://justfinancefoundation.org.uk/cscs/trainers/

[90] http://www4.shu.ac.uk/research/cresr/ourexpertise/evaluation-cash-smart-credit-savvy

[91] https://www.theguardian.com/society/2017/jun/27/more-than-minister-reduce-dependence-costly-credit, https://www.ft.com/content/7b83299c-e688-11e3-9a20-00144feabdc0

[92] https://www.young-money.org.uk/projects-funding/projects/lifesavers

[93] https://www.lifesavers.co.uk/savingsclub/; Although see also Gregory, L. No Date. Creating LifeSavers: Exploring the formulation and implementation of the LifeSavers financial education programme. Centre on Household Assets and Savings Management, University of Birmingham.

For schools not eligible to participate in the in-school support programme, resources are available to enable them to incorporate financial education into the curriculum. Online resources and advice are also available for schools interested in setting up their own savings club. LifeSavers has also offered 250 primary schools a free teacher training session around financial education and how to set up a savings club.[94]

Hayley – A Just Finance Network Customer Case Study

After giving birth to her son, Hayley suffered from postnatal depression. She thought her husband was paying the bills but discovered he hadn't kept up with them and since they were all in her name, she had accrued substantial arrears. Hayley found it very hard to pluck up the courage to confront the problem, but then a colleague referred her to St Andrews Community Network, one of the organisations that form part of the Just Finance Foundation in Liverpool. She made contact and was assigned a debt advice worker to help her get on top of her finances again. They presented her with options to tackle the issue, and showed her there was light at the end of the tunnel.

After coming to St Andrews Community Network, Hayley has felt like a big burden has been lifted from her, and she is now able to plan for her future. She is in control of her finances once again, instead of her finances controlling her.

Hayley says: "I've got peace of mind. Even though I know it's going to take a while to pay it off, I'm not running from it, not hiding from it anymore."

Source: https://www.cuf.org.uk/news/ms-hayleys-story

6.3 Scaling up

The Just Finance Foundation is still in its early days, evolving from earlier pilot initiatives triggered by the Archbishop's Task Group on Responsible Credit and Savings.[95] It reflects the move to national concern within church groups about the issues of money, finance and debt in local communities. There are several elements in the organisation's development.

First, the profile, marketing, reach (and power) JFF has been able to bring to the issue of affordable credit both on a national and local scale. As a national movement this profile has been cascaded through local churches and schools across the country and into communities. Achieving awareness, understanding and credibility of the credit union movement at scale has long been problematic; the Church is strongly rooted in local communities and has demonstrated that through community mobilisation it can provide introduction to, engagement with, and market reach for, local credit unions.

https://www.birmingham.ac.uk/Documents/college-social-sciences/social-policy/CHASM/2016/creating-lifesavers.pdf

[94] https://www.lifesavers.co.uk/teachertraining/

[95] Archbishop's Task Group on Responsible Credit and Savings: Final Report. https://static1.squarespace.com/static/5406dac3e4b02d18666bcb68/t/56b9bff9c2ea513afa7d2be3/1455013883903/Task+Group+Final+Report.pdf

Second, gaining a fuller understanding of credit unions as an affordable lending solution. Replicating a key issue for the credit union movement, many diocese have seen their successful promotion of local credit union membership ('market reach') attract congregation members whose financial situation was relatively secure and who had little need for credit.[96] Such households offer little prospect of generating income for credit unions in the absence of members who take out loans and pay interest. The network has sought to quickly adapt its strategy for recruiting new credit union members, recognising the particular need to identify those likely to have a need for credit (for example, working age households with children). A number of payroll schemes have also been successfully set up allowing individuals to both save and borrow.[97]

Third, a (local) partnership approach to affordable finance, and overcoming debt. In its local activities, JFN has utilised its ability to play the role as a 'bridge or broker' with the church as institution able to support bringing together those involved in delivering services to low-income and vulnerable groups (as well as employers) with organisations such as credit unions and providers of debt advice.

Fourth, the challenges of raising funding. Whilst met with enthusiasm, finding sufficient resources to fund the work of the Foundation has been a challenge and the planned roll-out slower than desired. Overcoming financial exclusion and supporting responsible finance remains an underfunded area with limited resources in the face of substantial need.

6.4 What's next?

The Foundation and its activities continue to develop nationally and locally within a broader championing by the Church of affordable credit. Meanwhile further funding avenues are under development.

[96] See Henry, N. and Morris, J. (2018) Scaling Up Affordable Lending: Inclusive Credit Scoring. A Report to Responsible Finance, Chapter 4.

[97] https://justfinancefoundation.org.uk/jfn#stories-CCCN

7 Scaling Affordable Lending: The Affordable Lending Portal

7.1 Who are they?

In August 2015, Affordable Lending Limited was a company created as the basis for developing the Affordable Lending Portal (ALP) – a commercially sustainable national online lending channel for responsible finance personal lenders. It brought together a mix of responsible lenders – responsible finance providers and credit unions - and commercial partners to cooperate and develop a portal offering affordable loans to bring to market.

Partners included: Asda, Barclays, Cabinet Office, Experian; *Five Lamps*; *Leeds City Credit Union*; *Manchester Credit Union*; Responsible Finance; *Scotcash*; StepChange; *Scotwest* and Stone King (lending partners in italics).

Utilising the partnership with Asda, ALP was set-up as an on-line referral channel from Asda Money to its own portal and lending platform, https://www.affordableloans.credit/, built with the support of Experian.

The portal mirrored industry protocols, seeking to allow the customer to check their eligibility for loans from different providers in a quick and easy manner with the least data requirements and clicks from the customer as possible. The initial process included a 'soft credit' assessment of the customer.

The customer had the potential to then choose a provider and be referred to that provider for a full application process, either by direct entry into the lender's processing system or by manual referral.

Whilst ALP achieved reach to potential borrowers, this translated into a low volume of loans. It made it's first loan within a week of it's soft launch in October 2016. By December 2017, ALP had achieved over 60,000 visits to its website and undertaken over 3,000 eligibility checks using basic customer details. It had processed over 300 loan applications, fulfilled around 100 loans, and provided loan wrap-around financial support to over 60 individuals. This meant an overall conversion rate for home page landing to offer of a loan of 0.1%.

6,000

VISITS TO ITS WEBSITE

from it's soft launch in October 2017 to December 2017.

ALP was provided with an initial £50,000 of seed funding by the UK government, in addition to £20,000 from Scottish government. The development process was undertaken on a pro bono basis, including by its private sector partners Asda and Experian. By the end of 2017 it is estimated that the value of its pro bono contributions had been around £1 million. It was expected that the initial pilot phase would support an understanding of pricing models and at least, the move towards a cost recovery model, if not commercialisation. As it stands, lack of lending activity has provided limited insight into a viable fee model, and the pilot remains a substantial distance from a commercial model.

7.2 Breaking the cycle of financial exclusion impacting low income consumers

The mission of the ALP was:

"We can break the continuing cycle of financial exclusion impacting low income consumers by:

- *Increasing public access and choice to alternative financial service providers such as Credit Unions & responsible finance providers.*

- *Increasing the supply of affordable credit to displace high cost credit alternatives.*

- *Increasing levels of personal financial capability in respect to personal finance and debt management.*

- *Using technology to create national scale and ease of access"*

Given this, the objectives of ALP comprised:

1) To develop a sustainable nationwide private sector supply of affordable credit to low income consumers;

2) To develop a partnership ecosystem including an on-line delivery platform for sustainable and affordable finance;

3) To strengthen the family of regional and local affordable lending providers to create national capability, uniformity of experience and coverage; and

4) To pilot and test the infrastructure, processes and protocols required to overcome the barriers to the supply of affordable credit at a national scale through a phased process of 'proof of concept', 'pilot' and 'roll out'.

To achieve these objectives a number of key concepts were incorporated in the ALP model:

- The need for national scale and consumer advocacy of a national product, and which could only be achieved through a digital, on-line product;

- For national take up to be realistic, this would only be accomplished through the alignment of ALP to trusted retail brands with easy to use access and products;

- Affordable Lending Ltd would function as the broker between supply and demand, promoting and providing access to sustainable, affordable finance products; and

- ALP affordable credit was to be understood as an initial step in an on-going relationship to achieving financial capability and wellbeing (through 'wrap-around' services).

60

PEOPLE GIVEN WRAP-AROUND FINANCIAL SUPPORT

7.3 Scaling up

ALP was designed around three 'scale dimensions': partnership working, national reach of an on-line lending channel, and commercial sustainability.

Partnership working: Partnership building was time consuming (two years) with a number of initial interested parties (both lenders and stakeholders) exiting as the initiative progressed. Regulatory authorisation for a new, and diverse, partnership proved a considerable hurdle to overcome.[98]

Two noticeable aspects of the partnership were:

- Responsible finance providers and credit unions working in partnership;
- Affordable lenders working with private sector brands – especially the major retail brand of Asda; historically others have occasionally worked with Experian as a leading credit scoring agency.

Given its origins, and drawing in a broader set of stakeholders, ALP also defined itself as a 'partner ecosystem'. This includes arms of government and regulatory authorities as well as the broader 'wrap-around' activities and financial services required to affordable lending (such as debt charity StepChange).

Throughout the pilot, 'on-boarding' discussions with new partners took place. This included additional lending partners, although the limited lending activity achieved by ALP was not an attractive incentive to join.

In September 2017 Asda launched its own personal lending platform through a white label service operated by Freedom Finance and including a substantial panel of commercial lenders. ALP negotiated continued referrals of those unable to borrow under this new Asda Money initiative, however this meant a protracted customer experience.

National reach of an online lending channel: Overall, the partnership with Asda Money has proven the ability to achieve high levels of reach and awareness raising for affordable lending, but the consumer demographic reached has not translated into acquired customers and lending activity.

LOANS FULFILLED

Meaning an overall conversion rate for home page landing to offer of a loan of 0.1%.

100

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[98] Recognising such issues, the Financial Conduct Authority has introduced a Regulatory Sandbox, https://www.fca.org.uk/firms/regulatory-sandbox, to support testing and journey to market of innovative products, services, business models and delivery mechanisms.

A number of reasons for this have been noted:

- The typical customer demographic referred from Asda Money has not matched the desired lending profile. For example, large numbers of potential customers have been ineligible from initial provision of information (‘Red’). Lending in such instances would not have been responsible;

- Alternatively, over 50% of customers have been ‘Amber’ following initial validation and ‘soft credit’ checks undertaken by Experian. This implies a requirement for further underwriting activity to determine eligibility and risk; initial ‘soft credit’ checks undertaken have not been sufficient;

- The portal has seen continuous refinement but, initially, required personal data entry that acted as an immediate barrier;

- The potential lending options available to the customer have been limited, including postcode specific – and in the majority of cases have required further dialogue with the lender; and,

- Seamless integration with lenders’ existing loan management systems has not been achieved – the customer has entered a further loan management system on choosing a potential loan provider (which may even be manual in nature and include repeat data entry). Automation has been very limited.

In summary, in a sub-prime lending market characterised and driven by ease of access, speed of lending and digital solutions, ALP’s customer journey remains relatively complex, lengthy and cumbersome.

Refinements to the portal are on-going to support simpler and shorter customer journeys, including faster loan decisions. However, portal journey refinements have been limited by the different systems and procedures of the individual lending partners (especially between credit unions and responsible finance providers). ALP remains some way from an integrated lending platform capable of meeting commercial standards around speed and automation.

Commercial sustainability: Provided with initial seed funding, and supported through Scottish government funding and pro bono activity, the expectation was that the ALP pilot phase would support an understanding of pricing models and, at least, the move towards a cost recovery model if not commercialisation.

A number of pricing models were envisaged such as cost per transaction, cost per acquisition and cost per lead. As it stands, lack of lending activity has provided limited insight into a viable fee model and the pilot remains a very substantial distance from a commercial model.

Nevertheless, Experian has continued to provide support beyond the initial six month pilot through its CSR funding stream and the core lending partners have remained committed to operational activity. Indeed, successes of ALP can be seen in the context of developments in two of the lending partners especially - Five Lamps and Scotcash.[99]

Both these organisations recognise that lending volumes are critical to sustainability and have been on longer term ‘scale up’ trajectories which are nearing fruition, including sustainability. In recent times, both organisations have invested in extending their personal lending activities across multiple channels and geographically (UK wide). In this context, ALP has formed one part of this lending infrastructure, supporting organisational understanding and development in providing a national scale on-line channel and product.

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[99] See Henry, N., Velthuis, S. and Morris, J. (2018) Scaling Affordable Lending: Case Studies. A Report to Responsible Finance

7.4 What’s next?

Over three years on, ALP remains operational with a core set of committed partners who are seeking continued development of the initiative despite initial disappointment at lending levels achieved. There are at least two major drivers for this continued commitment.

First, ALP’s development objectives continue to encapsulate the strategic pathway that affordable lenders recognise needs to be taken in order to respond to the demand for responsible consumer credit. To scale up, lenders need national reach, national products and an on-line platform capable of automated lending decisions that offer a comparable customer journey to high cost lenders. Strategically aligned, and part of a broader array of overlapping organisational and sectoral developments, ALP is able currently to continue to draw on the (various forms of) support of its partners. Today ALP may not be ‘the solution’ but it is recognised as part of the solution.

Second, this contribution relates closely to what has been put in place to date, and what has been learned from the process of doing so. For example, the Asda relationship has proved the concept of retail brand power even if the ‘right sort’ of customer has not been acquired. Whilst the Asda relationship has been restructured, new brand channels to market are under discussion, including using customer demographics to target partners. Similarly, with a portal and platform in place, web optimisation to drive traffic directly is now an option, alongside new partner referral channels.

Furthermore, as portal refinements continue and the desired ‘front end’ delivers increasing volume, this drives ‘back end’ integration challenges and innovation amongst lender systems. In addition, as the platform develops incrementally it provides the ability to bring new lenders into the partnership and to build further ‘modules’ onto the platform such as digital offerings of wrap-around services, tools and resources. This reaffirms the initial ‘brokerage’ ambition for ALP and its broader mission of supporting financial capability and wellbeing beyond lending alone.

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