Analysis of enquiries to CDFIs to refinance high-interest loans

1) Executive Summary

- Community Development Finance Institutions (CDFIs) are social enterprises that specialise in supporting businesses and people who can afford to repay a loan but struggle to access finance.
- CDFIs play a vital role in expanding economic opportunity across the UK and back thousands of customers every year through a relationship-based approach.
- In 2025 CDFIs lent £181.4m to 6,869 small businesses, creating and sustaining thousands of jobs. Banks, the Government, MPs and the media recognise the essential role of CDFIs in unlocking opportunities.
- Over the past two years CDFIs have reported an increase in the number of small businesses approaching them to refinance high-interest loans, typically provided by online lenders whose marketing focuses on their ability to offer quick decisions and rapid access to cash. Such lenders are not required to clearly display the total cost of borrowing or accurate representative rates. Often, the high-interest repayments placed significant pressure on the businesses' cashflow. Brokers, banks, business groups, and other alternative lenders have also reported[1] negative customer outcomes following some high-interest, short-term loans.
- To back up this observational evidence with data, ten CDFIs[2] tracked the enquiries they received from businesses to refinance over a 3.5 month period[3]. This paper is an analysis of the evidence provided.
- Key findings include:
  - Over 70 refinancing enquiries[4] involving nearly 150 high-interest loan facilities from 31 different lenders, worth about £9m in lending.
  - Over half of businesses had 'stacked' loans (multiple high-cost loans at once). (Furthermore, one business that submitted an enquiry outside of the time period had 10 stacked loans).
  - 70% of the enquiries originated through commercial finance brokers.
  - CDFIs were able to offer refinance to 28 businesses (40%). CDFIs reported that this reduced those businesses' loan repayments by an average of about £10,000/month for each business or £120,000 a year. The cash freed up by the CDFIs' intervention is significant for a small business; it is the equivalent of 2-3 jobs, or new equipment, or building a resilience buffer in the business.
- Given this is a sample from a small number of CDFIs over a short period of time, and there is low awareness of CDFIs amongst businesses, the scale beyond this sample is unknown and warrants further research. Although there is a place in the market for higher interest short-term loans, there is a need to establish

[1] The Times newspaper, 4 May 2026: Pitfalls of dash for cash when the big banks won't play ball; Guild of Business Finance Professionals / Business Finance Matters, 10 March 2026 and 22 April 2026; Paul Goodman, Response to Government Access to Finance Report, 5 December 2025; Government review concludes "there are gaps in mainstream finance, and criticises murky broker behaviour and complex regulation" as reported in The Times, 8 December 2025.
[2] 10 CDFIs tracked their enquiries: ART Business Loans, BCRS Business Loans, Business Enterprise Fund, Business Enterprise Fund North East, Community Finance Ireland, CWRT, First Enterprise, Let's Do Business Finance, River Capital, SWIG Finance
[3] 13 March – 29 June
[4] See appendix

whether businesses have been sold products which were not the most appropriate for their circumstances, when lower-cost products may have been available. Small businesses are essentially people, and it is the lenders' responsibility to ensure they are well informed of the risks they are taking on, transparency in pricing and proper affordability assessments are undertaken. More research is needed and we recommend that Government considers regulation around pricing transparency, affordability checks and mandatory disclosure of broker fees; and whether such measures would improve customer outcomes for small businesses.

2) **Findings**

a. Data overview

Category	Validated result
Unique enquiries	71
Total value of loan enquiries	£8,899,098
Average loan value	£125,339
Smallest loan value	£6,000
Largest loan value	£500,000
Average interest rate on loan to refinance	37.4%
Lowest interest rate on loan to refinance	21.0%
Highest interest rate on loan to refinance	91.0%
Lowest CDFI interest rate	12.0%
Highest CDFI interest rate	18.0%
Average CDFI interest rate[5]	16.6%
Average monthly cashflow freed up by CDFI refinancing	£ 9,871

b. Broker involvement

Broker involved	Cases	Share of unique cases
Yes	49	69.0%
No	21	29.6%
Incomplete	1	1.4%

- Broker involvement was recorded in more than two-thirds of the submitted cases.

[5] CDFIs' interest rates are published on their websites

- Brokers are an important route through which businesses reach lenders, including CDFIs. But broker commissions are not legally required to be disclosed or transparent. Research is needed into whether any lenders pay brokers high referral commissions, creating misaligned incentives.

c. Most frequently reported lenders

The following counts represent **individual loan facilities**. Where one business held several separate facilities from the same lender, each facility was counted.

Rank	Lender	Instances
1	Iwoca	37
2	Funding Circle	27
3	Capital on Tap	16
4	Nucleus Finance	11
5	Federal Capital	9
6	MaxCap	7
7	YouLend	6
8	Fleximise	4
9	Sigma	3
10	Haogen Finance	2

- There were **31 different lenders** represented and **147 individual lender or facility occurrences** across the 71 unique enquiries.
- These figures show which lenders occurred most frequently in the CDFI-submitted cases.
- The table above does not represent lenders' overall market share.

d. Loan stacking

Loan stacking is when a borrower takes out multiple loans from different lenders in a short period of time.

Measure	Result
Cases involving one loan facility	29
Cases involving multiple loan facilities (loan stacking)	40
Cases with no lender(s) recorded	2
Share involving multiple loans (loan stacking)	56.3%

Average loans per stacked case	2.95
Range of loans per stacked case	2–6

- Loan stacking was therefore present in **40 of the 71 unique cases**. CDFIs' anecdotal feedback similarly described businesses using numerous high-cost loans to plug continuing cashflow gaps.

Loan facilities in a case	Number of businesses	Share of all cases
1 loan	29	40.8%
2 loans	19	26.8%
3 loans	11	15.5%
4 loans	5	7.0%
5 loans	3	4.2%
6 loans (template maximum)	2	2.8%
No lender recorded	2	2.8%
Total	71	100%

- There were 147 loan facilities across 71 enquiries **(2.95 loans per stacked case).**
- **56%** of enquiries involved two or more loans.
- **30%** of business held three or more.
- Stacked cases also involved larger borrowing;
    - They account for **68% of the total value** requested from CDFIs.
    - The **average stacked loan was £150k** vs £93k for single loan cases.

One example from a CDFI submitted outside of the date range was an enquiry that had 10 stacked loans from high-interest lenders, in addition to two existing facilities. This business found the CDFI organically. Two CDFIs were able to jointly refinance these loans.

The list of facilities involved:

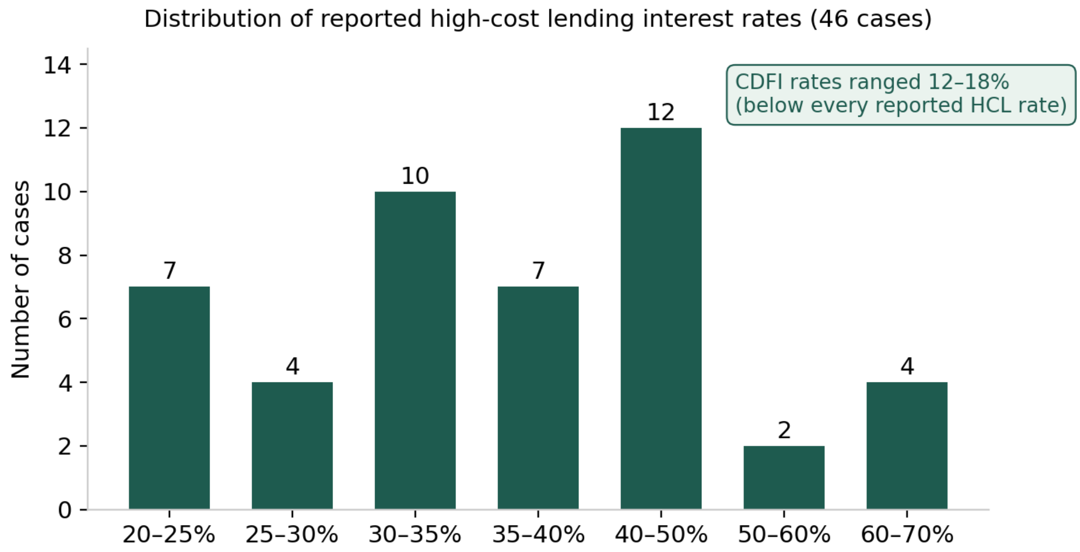
Annual rate	Number of facilities	Original amount (£'000)	Settlement amount (£'000)
60% to 69.99%	1	70	24
50% to 59.99%	5	335	289
40% to 49.99%	2	40	25
30% to 39.99%	1	15	8
20% to 29.99%	1	75	31
Other existing (non high-cost loan facilities) <12%	2	120	40
Total	**12**	**655**	**417**

The highest annual rate on the high-cost facilities was 69.6%. Personal guarantees were provided on all the high-cost facilities.

e. Interest rates

46 of the 71 cases (65%) have an exact interest rate. Rates that were reported as ranges were taken at the midpoint; the two "20%+" entries, 11 "Unknown" and 12 blanks were excluded.

Reported HCL rate	Cases	Share
20% to <25%	7	15%
25% to <30%	4	9%
30% to <35%	10	22%
35% to <40%	7	15%
40% to <50%	12	26%
50% to <60%	2	4%
60% to <70%	4	9%



- Where a rate was listed, they ranged from **21% to 91%, with half of businesses paying 35% or more and three in ten paying 45% or more.**
- Every reported high-cost rate was above the highest rate charged by a CDFI (18%). 18% is the highest single CDFI rate in the dataset; the average CDFI rate was 16.6% (16.4% across the 40 matched cases).

f. <u>% of CDFI enquiries</u>
CDFIs' estimates reported to Responsible Finance suggest that refinancing high-cost borrowing now accounts for a substantial share of enquiries, ranging from around 50% to 70% for those reporting.

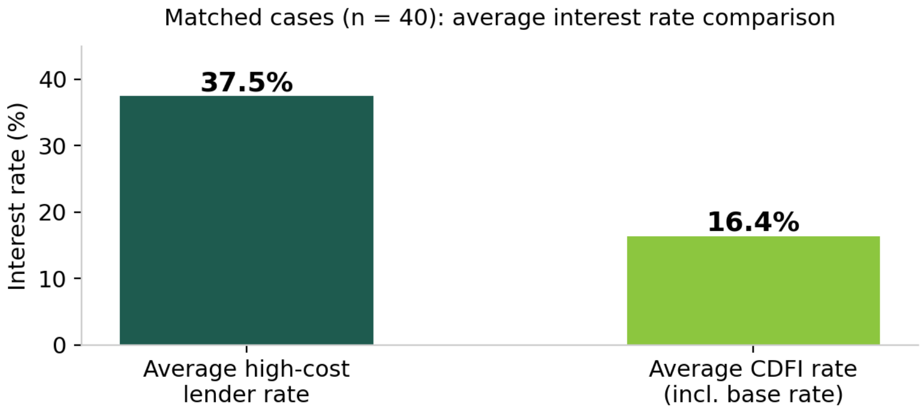
g. <u>CDFI ability to help</u>

Outcome	Cases	Share of unique cases
Yes	28	39.4%
No	14	19.7%
Maybe	24	33.8%
Incomplete	5	7.0%

- **CDFIs were recorded as "able to help" in 28 cases (this does not mean that refinancing has been completed yet)**.
- A further 24 cases were classified as "Maybe", meaning that more than one-third of the enquiries remained uncertain or under consideration rather than having a final outcome.
- It would not be fair to describe the "Maybe" cases as successful or unsuccessful at this stage.
- In the cases where CDFIs couldn't help, this is usually due to the level of indebtedness of the business meaning it wouldn't be responsible to lend or affordable for the business to take on a loan. Sadly, in these cases, it is

possible that the business will need to work with an insolvency practitioner.

Where possible we compared CDFI interest rates to high-interest lenders' interest rates (40 matched cases). CDFIs were not able to help in all of these cases.



- Applying each matched case's two rates to its reported borrowing gives an illustrative annual interest cost of £1.76m at high-cost rates versus £0.74m at CDFI rates — a difference of around **£1.0m a year across 40 businesses, or roughly £25,000 per business**.
- For the businesses CDFIs were able to support, refinancing freed up an average of **£9,871 a month — almost £120,000 a year per business**. For several businesses the repayment burden before refinancing was severe: daily collections, fixed repayment sums up to 49% above the amount advanced, and monthly repayments reaching £77,000.

h. Sample agreements

Observed feature	Illustrative example
Frequent automated repayments	Some loans required repayments every day, or automatically deducted a share of the business's card sales, rather than a single monthly repayment
Repeat borrowing over time	Some businesses took out additional loans instead of repaying a single borrowing
Alternative repayment structures	Some products specified a fixed contractual repayment amount at the outset, rather than using a conventional interest-based loan structure
Extensive lender protections	Agreements included personal guarantees and clearly defined lender rights in the event of default

In addition to recording the enquires, CDFIs sent us anonymised sample agreements between businesses and some of these high-interest lenders.

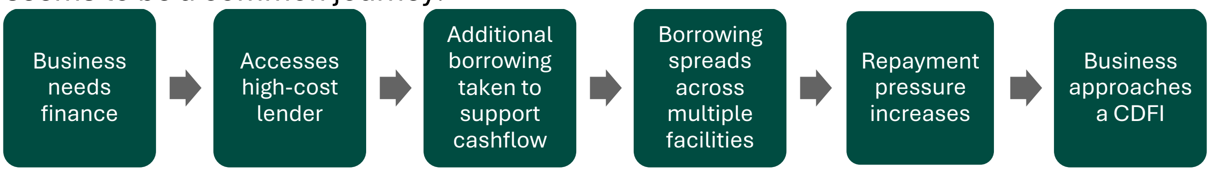
The agreements illustrate recurring product features that differ from more traditional business lending products, particularly around repayment mechanisms, contractual protections and repeat borrowing.

i. Specific examples of practice observed:

- One merchant cash advance provided c. £47,000 to the business, with more than £70,000 due to be collected in return – over £23,000 more than the amount provided – through estimated daily payments of over £500.
- In another case, a business received around £29,000 and £35,000 was due to be repaid, with 20% of its daily card takings going towards the repayments.
- Another business borrowed more than £150,000 and had already repaid nearly £45,000 over nine months. Over the same period, over £54,000 in interest and fees had been added, leaving the business still owing more than £164,000.

3) Why businesses are going down this route

These businesses appear to reach CDFIs relatively late. Taken together, the quantitative evidence and CDFI feedback indicate that businesses often seek support only after their borrowing has become increasingly complex. The graphic below explains what seems to be a common journey:



This pathway is not intended to describe every business, but it reflects the recurring characteristics observed. In addition, the following CDFI quote illustrates this pathway (it does not describe any particular business):

> *"A business initially accessed high-cost finance to meet an immediate funding need. As cashflow pressures continued, additional borrowing was taken from other providers, resulting in several concurrent lending facilities. By the time the business approached a CDFI, refinancing involved consolidating multiple loans from different lenders into a more manageable arrangement."*

4) Customer story: essential care continues after expensive lending addressed

A home and social care provider with branches in the Midlands and South East had borrowed from three high-cost lenders. The business had used these short-term loans to help meet its payroll obligations while experiencing fluctuating income and some late paying clients. But monthly repayments of more than £18,000 put significant pressure on the firm's cash flow, limiting its ability to reinvest in services and plan for sustainable growth.

With support from broker Lendoe, the business was introduced to First Enterprise, a CDFI. First Enterprise provided a £150,000 term loan designed to offer more affordable, longer-term working capital, helping the business move away from high-cost borrowing.

This resulted in over £144,000 in annual cash flow savings, reducing financial pressure, improving stability, and enabling the business to reinvest and grow sustainably while continuing to deliver essential care services. Its managing director says "I truly appreciated our Investment Manager, Shaun, taking the time to meet us in person and understand our care model."

5) Conclusions

This report is based on a relatively small sample of CDFI-submitted cases, but these findings provide one of the first structured evidence bases describing businesses seeking to refinance high-cost borrowing through the responsible finance sector.

The findings identify recurring characteristics that warrant further exploration and more research should be done into the extent of the issues. Several themes have emerged:

- Businesses approaching CDFIs to refinance want to **reduce the cost of their repayments**.
- **Loan stacking appears to be a recurring characteristic** of the cases submitted by CDFIs rather than isolated examples: businesses have taken out new, concurrent loans.
- **Brokers appear to play a major role in businesses using expensive lenders / products**. Within this research we did not explore whether these lenders pay higher broker commissions.
- Businesses may be reaching CDFIs **after their borrowing has become increasingly complex**, rather than at the point finance is first required.
- CDFIs appear well placed to offer **lower-cost refinancing solutions for viable businesses**, although further evidence would be required to quantify realised customer outcomes. Where CDFIs were able to quantify the impact, refinancing had the potential to release substantial monthly cashflow back into businesses.
- The analysis likely understates the true cost of high-cost borrowing. It captures reported interest rates but not the arrangement fees, brokerage charges, default fees and other costs often layered onto these facilities. The actual financial burden on businesses - and the potential benefit of refinancing through a CDFI - may be materially greater.

We are grateful to the CDFIs for tracking this data and working with the SMEs who made the enquiries. The good news is that CDFIs were "able to help" 28 businesses. However, businesses should be coming to CDFIs sooner.

Responsible Finance recommends:

- More research is done on the market size and outcomes of high-cost lending.
- The government should investigate the high-cost business loans market and consider introducing targeted regulation around responsible lending, affordability checking, transparency and disclosure for brokers and business lenders.
- More banks, accountants, business support agencies and other business-facing partners should signpost to CDFIs.
    - Financial education and awareness should be built into these touch points to enable small businesses to make informed decisions about their funding.
- Continued investment and funding into the CDFI sector to drive its growth to be able to reach businesses sooner.

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Please email info@responsiblefinance.org.uk if you want to discuss any points raised in this document.