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Evaluation of first-loss funding to CDFIs

Final report

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About WPI Economics

We are an economics, data insights, policy and impact consultancy, but one that is a little different to many others. We draw on backgrounds in government and the private and charitable sectors to produce work designed to make a difference. We do not do research for research's sake. We are committed to ensuring that everything we do has an impact - which is part of the reason why we are a verified B Corporation.

About this report

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Findings at a glance

First-loss funding can unlock significantly greater investment and lending. The £600,000 City Bridge Foundation grant helped three participating CDFIs accelerate the deployment of £2.4 million of senior capital, enabling almost £7 million of affordable lending to more than 8,300 financially underserved people.

The model delivered strong value for money. The evaluation estimates that every £1 of first-loss funding generated approximately £2–£3 of monetisable benefits, rising when wider welfare benefits (£3–£4) and the accelerated deployment of senior capital (£14–£18) are taken into account.

Serving financially underserved customers does not necessarily mean poor lending performance. Arrears, defaults and write-offs remained relatively low across the pilot, despite the participating CDFIs lending to customers who are often perceived as higher risk.

The evidence supports scaling the model. The evaluation concludes that larger and longer-term first-loss funding could help CDFIs lend with greater certainty, give investors greater confidence and attract more private and social investment into affordable credit.

Executive Summary

Community development finance institutions (CDFIs) are locally-rooted social enterprises that provide credit to individuals, businesses and social enterprises that are often underserved by mainstream lenders. They play an important role in improving access to affordable finance. However, CDFIs need access to external funding and investment to grow their lending. First-loss funding is one way to help unlock this, by providing a grant-funded layer of protection that can absorb an agreed level of initial losses. First-loss funding is designed to help CDFIs to reduce their reliance on grant funding and high capital costs as well as expand their lending.

City Bridge Foundation, London's largest independent charitable funder, has worked with Responsible Finance to pilot £600,000 first-loss funding in November 2023 to three CDFIs – Fair Finance, Fair for You and Salad Money – to service underserved consumers in London. The pilot's purpose was to assess whether first-loss funding could play a catalytic role in leveraging external capital to permanently increase CDFIs' capacity to provide more customers with affordable credit.

Responsible Finance commissioned WPI Economics to evaluate the impact and value for money of the first-loss funding grant from City Bridge Foundation, covering the period November 2023–September 2025.

During the evaluation period, the catalytic effect of the grant was significant. The pilot therefore provides a strong platform to extend the funder base for CDFIs with an increased grant and longer time horizon.

From our analysis, we found that the key impacts on lending and investment were:

- Collectively, the £600,000 grant enabled the three CDFIs to issue **almost £7 million in affordable loans to more than 8,300 customers** in need by the end of Q3 2025.
- First-loss funding is effective at enabling CDFIs to accelerate the deployment of capital for lending. Combined, **the three CDFIs leveraged £2.4m in accelerated capital from existing investors and facilities**. This, and the recycling of repayments, led directly to the catalytic effect and increased lending. However, this capital cannot be attributed to the grant alone: it also depended on their operational performance, existing investor commitments and previous investment in the CDFIs by Fair4All Finance and other social and impact investors. Notably Fair4All Finance has committed more than £50m to personal-lending CDFIs across a range of programmes.
- **Loans in arrears (7.3% of total loans), defaults (3.3%) and write-offs (3.8%) have remained low, comparable to the default rates of credit card loans**. This reflects the robustness of the lending model, highlighting the possibility of achieving reliable outcomes even when lending to higher-risk groups who might otherwise struggle with affording loans.

The expansion of lending allowed the CDFIs to reach customers they may not otherwise have been able to support:

- Of the loans for which customer status could be identified, approximately 56% were issued to new customers, amounting to more than £2.7 million in value. This first-loss funding pilot has allowed CDFIs to reach new customers who would otherwise not have been able to access credit.
- The three CDFIs have been able to **support a higher proportion of people who are female, lone parents, have low incomes, live in social housing, live with a disability, or are in receipt of benefits compared with the average population both in London and across England**. CDFIs also offer support services like benefits checkers which can improve customers' financial resilience and stability. In one CDFI's case, more than £1.36 million in unclaimed benefits was identified for its customers.
- The loans offered by the three CDFIs have a weighted average interest rate of 60% APR – substantially lower than the average 1,250% APR of high-cost alternatives. This **interest saving contributes to improved financial wellbeing**, with customers reporting reduced stress, greater financial confidence, improved productivity at work, better mental and physical health and better debt management.

As well as these benefits, the pilot also delivers strong value for money:

- Under conservative assumptions that exclude all reported accelerated capital and the associated loan recycling, for every £1 of first-loss funding invested, **approximately £2 to £3 of monetisable benefits** are generated, including customers' interest savings.
- In addition to interest savings, our value for money (VfM) analysis considers welfare impacts arising from CDFIs' benefit checkers, which help some customers identify and access welfare benefits they were previously entitled to but not claiming. **Including welfare impacts increases the estimated monetisable benefits to £3 to £4 per £1 of first-loss funding under the conservative assumption.**
- The estimated monetisable benefits increase exponentially when both the grant funding and the associated accelerated capital leveraged are incorporated into the analysis. Under these assumptions, the estimated monetisable benefits rise to around £14 to £18 for every £1 of first-loss funding when welfare impacts are included.
- While these figures are large, **they still do not consider wider channels of benefit that would increase the monetisable benefits further**. This includes the positive outcomes of reaching and supporting those who struggle to access finance and are financially vulnerable, as identified in the impact analysis.

1. Introduction

1.1 Affordable credit landscape in the UK

In 2024, more than 20 million people in the UK were defined as financially vulnerable and struggled to access affordable credit from mainstream lenders. This number continues to grow rapidly and has increased by 16% from 2022 to 2024.ⁱ This includes people with limited credit histories, negative marks on their credit files, or low or volatile incomes such as the self-employed and gig economy workers.ⁱⁱ

There are several potential consequences to this, one of which is that people will turn to high-cost lending instead. While approximately 10 million people in the UK borrowed from family and friends, there are limits of what they are able or willing to provide, and such lending is not always benign.ⁱⁱⁱ More concerningly, evidence suggests that more than three million people made use of illegal lenders, with an average of £3,000 debt per borrower in the three years ending June 2023.^{iv} Detailed research by the Centre for Social Justice estimates that up to 1.08 million people borrowed illegally in 2022, exposing them to the potential consequences of being trapped in entrenched cycles of illegal lending, including the damage to people's finances, deteriorating mental health, and physical threats and violence.^v

1.2 Personal-lending CDFIs

CDFIs play an important role in providing affordable financial services to people and businesses that struggle to access finances from mainstream lenders. However, they remain underused and undercapitalised sources of financial support in the UK, especially in comparison to the US where mainstream banks use them as a means of lending to underserved groups in line with their obligations under the Community Reinvestment Act (CRA).

Currently, there are more than 50 CDFIs in the UK, around 10 of which provide personal lending.^{vi} Their business models vary, demonstrating their versatility and adaptability to both market needs and service delivery, offering products such as household goods loans, small personal loans and prepaid cards. They often use alternative credit scoring and tailored support to provide affordable loans to people excluded from mainstream banking. Personal lending CDFI customers are mostly on low incomes or homeowners needing essential home improvements. They are groups that are historically recognised as subject to inequity on account of income, ethnicity, gender, age and other defining characteristics.^{vii} While alternatives exist – such as borrowing from friends or family, high-cost short-term credit (HCSTC) or illegal lending – these are typically suboptimal and result in less positive outcomes for borrowers.

In 2024, personal-lending CDFIs lent £81.8 million to around 134,900 people, with an average loan amount of £606 per customer.^{viii} In contrast, the average for personal lending across the UK – including loans from banks, building societies, fintech and specialist lenders – was

approximately £46 billion during the same year.^{ix} This gap gives an indication of the growth potential of the personal lending CDFI sector in the UK. However, barriers remain to accessing external capital – alongside the perceived credit risk of end borrowers – that continue to constrain CDFIs' ability to expand and serve more financially-excluded customers.

CDFIs are generally small, mission-driven lending institutions which re-invest profits to lend more and sustain their organisations. While they generate income from loan interest and fees, this is often insufficient to cover the full cost of delivery. As a result, they depend on grant funding and social investment to sustain their operations. This dependence on grant funding, combined with the high cost of capital, creates a cycle that limits their capacity to expand lending.

However, accessing external capital is especially challenging for personal lending CDFIs. These barriers include the following:

- Unlike CDFIs lending to small and medium-sized enterprises (SMEs) – which benefit from Government policies such as the Community Investment Tax Relief (CITR) and British Business Bank loan guarantees – consumer lenders do not benefit from such a supportive policy environment.
- Their small scale and varied operating models – coupled with the fact that they are not deposit-taking – mean that they cannot leverage retail deposits like credit unions do, meaning that potential investors may view them as a risk.
- Some investors view high annual percentage rates (APRs, which show the total costs of borrowing over a year) as a reputational concern, even though for CDFIs these are significantly lower than payday lenders and reflect the greater cost of serving higher-risk borrowers rather than generating large profits from lending.

The high APRs – alongside wider challenges of regulation and costs – mean that personal lending CDFIs can struggle with long-term viability. For example, Street UK and ScotCash have recently ceased operating.^x

1.3 First-loss funding

Providing grants to CDFIs is a tool to break the barrier created by reliance on costly external capital. Grant funding strengthens the capital base of CDFIs, enabling them to lend to more people at affordable rates. City Bridge Foundation, London's largest independent charitable funder, has worked with Responsible Finance to pilot £600,000 of first-loss funding to three CDFIs – Fair Finance, Fair for You, and Salad Money – to lend to customers in London. This two-year pilot began in November 2023. The pilot was designed to assess the extent to which this approach can play a catalytic role in leveraging external capital to significantly increase CDFIs' capacity to provide more customers with affordable credit.

Each CDFI received a £200,000 first-loss grant to provide investors with protection against a proportion of first losses. This acts as a cushion to reduce the overall risk and improves the risk-return profile for investors. The main purpose is to attract investors who would otherwise be

hesitant due to risk concerns. However, the benefits extend beyond boosting investor confidence. When loans are repaid, funds are recycled and can be lent out again. Over time, the same capital reaches many more financially underserved retail customers, scaling its social return on investment. These together create a multiplier effect.

Our research and stakeholder workshop with CDFIs, combined with a review of existing studies, identified the potential of first-loss funding to generate financial, economic and social benefits. By receiving first-loss funding, CDFIs can deploy additional external capital, expand their lending capacity and enable them to lend to more underserved customers.

Meanwhile, customers gain access to fair and affordable credit, benefit from other wraparound support provided by CDFIs and, where appropriate, signposting to debt advice, helping them to meet their financial needs and build financial resilience. This support reduces their indebtedness and financial stress, improves their health and wellbeing, and enables continued engagement in work and education. These improvements can also have wider economic implications such as improved productivity at work. By providing regulated and transparent financial services, CDFIs also reduce vulnerable people's reliance on illegal or unregulated high-cost lending.

Increased external capital, expanded lending capacity and improved customer outcomes reinforce one another, with longer-term benefits including reduced financial exclusion in society, lower dependence on high-cost and harmful lending practices, and stronger public recognition of CDFIs as trusted community institutions. We have summarised these links in a logic model (see Annex I), demonstrating how first-loss funding can lead to positive benefits to society. While some broader societal outcomes are difficult to quantify directly, the evidence is strongest at the customer level – particularly for people who would otherwise struggle to access affordable credit – where improvements in subjective wellbeing, productivity, and debt management can reasonably be expected to contribute to wider community-level benefits over time.

1.4 Overview of research

WPI Economics has been commissioned by Responsible Finance to measure and evaluate the impact and value for money of the first-loss grant from City Bridge Foundation. The evaluation period covered November 2023 – September 2025. The goal set was to demonstrate how first-loss funding works and the value that it adds. This report presents the findings from a process evaluation, impact analysis and cost-benefit analysis.

1.4.1 Process evaluation

WPI Economics conducted a process evaluation to assess how the pilot was implemented and delivered. The assessment was both objective (covering the factual details of how the pilot operated) and subjective (incorporating perceptions of how well the pilot operated). The process evaluation explores the pilot's activities and outputs (as set out in the logic model)

through both qualitative stakeholder engagement and quantitative administrative data. In doing so, we are guided by the Magenta Book, the Government's central guidance on evaluation and project review standards.^{xi}

The process evaluation focused primarily on how the pilot's activities were implemented, delivered and then assessed based on stakeholder feedback. Moreover, process evaluations provide most value where the reform process is to be replicated or adapted, or where learnings can be applied to similar interventions in the near future. As a result, we focused a considerable amount of our process analysis on exploring with CDFIs, investors and other key stakeholders what first-loss funding looks like beyond the pilot.

1.4.2 Impact analysis

The impact analysis was primarily informed by monitoring data provided by the three CDFIs supported by the City Bridge Foundation grant. The evaluation followed the Magenta Book in using quarterly data to assess trends and patterns in programme activity and investment. This analysis was supplemented by a desk-based assessment of existing impact reports and qualitative insights from interviews with prospective investors, CDFIs and Responsible Finance, as well as focus groups and customer interviews to understand recipients' experiences and broader societal outcomes. Where relevant, wider evidence was also drawn upon to contextualise the findings.

Due to the nature of the pilot, it was not feasible to establish a control group for comparison. The CDFIs themselves operate in diverse contexts and vary in size, target markets and delivery models, making it difficult to identify a suitable counterfactual or pre-first-loss funding comparison group. Therefore, the analysis relies on before-and-after comparisons of the CDFIs in terms of external capital deployment, lending capacity and on examining the loan recipients' demographic characteristics against the broader London population (or relevant comparator populations).

Impact analysis of Fair4All Finance's first-loss funding to Moneyline

Alongside the three CDFIs supported by the City Bridge Foundation grant, the impact analysis also includes a supplementary assessment of Fair4All Finance's provision of a £200,000 first-loss grant to another CDFI (Moneyline), which was to increase lending activities in the East and West Midlands. Moneyline provided quarterly monitoring data for Q1 and Q2 2025, which we also analysed to evaluate the impact of their Fair4All Finance grant on lending, investment and customers supported. This additional analysis has been included because, although delivered through a different funder, the intervention is comparable in nature. Including Moneyline therefore provides additional insight into impacts in relation to lending activity and customer reach.

As Moneyline was incorporated into the evaluation's scope at a later point, there was not sufficient time within the evaluation period to conduct qualitative research with the CDFI itself nor its customers.

1.4.3 Cost-benefit analysis

A social cost-benefit analysis (CBA) was conducted to provide an objective assessment of the value that the first-loss funding adds to the CDFIs, individuals and wider society, and to understand how effectively resources are being used. To ensure consistency, transparency and alignment with best practice in social CBA, the CBA framework we used is based on the logic model and the modelling approach follows HM Treasury guidance given in the Green and Magenta Book. The ultimate aim was to produce benefit-cost ratios (BCRs) that demonstrate the balance of costs and benefits of CDFI lending.

We also conducted complementary quantitative and qualitative assessments to capture programme benefits that cannot be reliably monetised, helping to contextualise the wider societal and individual impact of first-loss funding.

Because first-loss funding is not implemented in a vacuum, attributing all observed benefits directly to the grant funding is challenging. For example, Fair4All Finance has also invested in all three CDFIs to increase their lending capacity in parallel. To reflect this variable, the analysis presents a central scenario and corresponding BCR estimate, supplemented by sensitivity analysis. These are further supported by scenario analyses, where we look at how changing key input variables affect the BCR results – this strengthens the robustness of the report's findings.

2. Process evaluation

2.1 Process evaluation methodology

2.1.1 Research questions

This process analysis focused on four key areas:

1. implementation;
2. delivery;
3. participation; and
4. the future of first-loss funding.

Within each of these areas, we have developed a set of research questions to be answered in the process assessment:

Category	Research question
Implementation	To what extent was the programme implemented effectively? What are the lessons learnt through this? Were there barriers and enablers faced by CDFIs in the process of implementing the intervention? How were these implementation barriers overcome?
Delivery	To what extent is the programme being delivered as intended? How have the differing approaches taken by the three CDFIs effectively contributed to the amount leveraged, and what can be learnt from this in terms of best practice for the sector?
Reach and participation	To what extent did the programme reach the participants (CDFIs and the financially underserved groups) for whom it was intended? How did stakeholders participate in the programme and what were their experiences, including any variations across the settings?
The future of first-loss funding	What would effective first-loss coverage look like for the CDFI sector? • What worked well and less well in the grant itself and lending through CDFIs? • What is good practice in delivering the programme?

- How can the programme be optimised?

What are the key factors influencing the aspiration and setup for a sustainable, long-term first-loss funding programme?

What is the optimum balance between the amount leveraged, recycling the grant, and reductions in rates for customers?

2.1.2 Process evaluation approach

To answer the research questions, we predominantly made use of qualitative engagement to evaluate the implementation, delivery and reach of the grants. Throughout this process evaluation, we focused on the views of the five main participants in the implementation and delivery of the pilot: Responsible Finance, City Bridge Foundation, and the three participating CDFIs. These perspectives were gathered through semi-structured interviews carried out in two waves: a baseline interview in August 2024 and an endline interview in September and October 2025.

Where appropriate, we also include reflections from the following:

- Interviews with existing and potential investors in the personal lending CDFI sector.
- Focus groups and semi-structured interviews with CDFI customers.
- Quarterly CDFI returns which provided details of individual loans.

Summary of key findings

- The purpose and design of the first-loss funding were well understood by CDFIs, Responsible Finance, and City Bridge Foundation as the funder. City Bridge Foundation adopted a light-touch approach throughout the pilot, with Responsible Finance acting as the main convenor and touchpoint for CDFIs.
- Early definition-setting around loan attribution and collection of demographic data requirements created delays but were resolved. Differences in organisational readiness and external disruptions led to uneven implementation timelines across CDFIs. Ongoing communication and flexibility from Responsible Finance were central to resolving challenges.
- Stakeholders consistently reported that first-loss funding enabled lending that would not otherwise have taken place. CDFIs used the first-loss funding in different ways, which not only reflected their structures and products but also resulted in varying leverage outcomes. For one CDFI, external operational issues limited leverage despite a sound underlying model.
- Lending was strongly concentrated among low-income, financially-excluded Londoners, particularly people in the most deprived Index of Multiple Deprivation deciles. Customers reported fast, simple, dignified and non-judgemental access to credit, contrasting positively with high-cost alternatives.
- Beyond the pilot, stakeholders agreed that, while £200,000 per CDFI was sufficient to demonstrate proof of concept, this would be insufficient to materially shift risk appetite or pricing at scale. Stakeholders also stressed that first-loss funding alone cannot deliver change and should be paired with guarantees and regulatory changes that focus on standardised reporting, shared performance data and a credible anchor institution (for example, the British Business Bank). There was also a difference in views on how first-loss funding's primary objective should be interpreted (risk mitigation, leverage, affordability, or sustainability), which meant that trade-offs were unavoidable between maximising leverage, recycling and APR reduction. Stakeholders favoured prioritising leverage.

2.2 Initial pilot design and setup

The pilot began with discussions between City Bridge Foundation, which is the largest independent charitable funder in London, and Responsible Finance. This was in response to the growing demand for unsecured credit during the cost-of-living crisis. Affordable credit was identified as a tool for alleviating some Londoners' cost pressures, considering they were likely to seek credit from high-cost or illegal lenders. At the outset, there was no fixed solution in mind; the initial contact between City Bridge Foundation and Responsible Finance was exploratory, considering options such as strengthening CDFIs' systems or linking credit with debt and benefits advice.

As City Bridge Foundation had little prior experience working in the CDFI sector, it relied heavily on Responsible Finance's expertise to guide the design of the pilot. As a result, the provision of first-loss funding was ultimately selected over mechanisms such as loan guarantees. This was because of the multiplier effects from recycled lending, which allowed CDFIs to reach more households. The provision of first-loss funding represented a departure from City Bridge Foundation's usual grant provision, which had typically focused on service delivery or research. The CDFIs were selected due to their existing strong lending activity in London, which provided a suitable base for scaling impact.

For City Bridge Foundation, the first-loss funding approach was attractive because it did not need to be repaid and could be used to leverage additional capital, thereby increasing CDFIs' lending capacity and meeting rising demand more effectively. Moreover, first-loss funding was seen as able to make an immediate impact by helping CDFIs respond to increased demand for affordable credit, particularly as regulation reduced access to payday lending and potentially pushed low-income households towards high-cost or unregulated credit.

Overall, decisions around the design and setup of the pilot were guided by a desire to be supportive, to build capacity in the sector and to follow what Responsible Finance felt would be most helpful given the circumstances.

2.3 Pilot implementation, delivery and reach

2.3.1 Implementation

The implementation of the first-loss funding pilot was broadly effective, with the high-level purpose and strategic intent well understood by all partners. CDFIs reported that the pilot's primary goals of expanding access to affordable credit and enabling increased leverage of private capital were clear from the outset. The place-based focus on London was also straightforward for CDFIs to put into operation, with organisations able to assign lending to London applicants through postcode and eligibility filters. It was also highlighted by CDFIs and key strategic partners that the London focus aligned well with high concentrations of need and deprivation.

Responsible Finance played a key role in shaping the design of the fund and setting expectations around the use of funding, which was valued by both CDFIs and by City Bridge Foundation as the pilot's funder. As a result, CDFIs were generally able to embed the first-loss funding within their existing lending processes with minimal disruption, once early operational questions had been resolved. For some organisations, the pilot also provided an opportunity to test new approaches to raising commercial capital and to strengthen or reconfigure internal lending systems.

Despite this clarity at strategic level, the programme's operational aspects were less well understood at the outset. In particular, some CDFIs received initial guidance that the first-loss funding needed to be attributed loan-by-loan at the point of disbursement. This created

administrative complexity and delayed deployment until guidance was clarified. Once Responsible Finance provided updated interpretation, CDFIs were able to apply the first-loss funding retrospectively in their accounts, which enabled a much smoother alignment with their operational and accounting models.

Moreover, while overall delivery was smooth, implementation progress varied substantially between CDFIs. On the one hand, two CDFIs were able to leverage commercial capital quickly and deploy lending at pace. However, on the other hand, one CDFI began lending later than others due to delays in integrating new data requirements into their systems. These differences underline the importance of considering organisations' readiness, capacity and external circumstances when interpreting how the pilot went.

The quarterly reporting structure was clear, although requirements evolved during the pilot. There were, however, two areas that caused some implementation challenges:

1. The use of new demographic data fields, most notably ethnicity. For one CDFI, integrating these fields required redesigning application flows and digital systems, resulting in delays in beginning lending under the pilot.
2. Reporting on leverage did not fully reflect the true extent of capital flows being generated.

This illustrates the importance of agreeing data requirements early and ensuring that CDFIs have sufficient time and resources to integrate changes into live systems. This may inform future template design.

Several pilot features were highlighted as enabling successful implementation:

- **Alignment with CDFI business models:** The first-loss funding structure was well-suited to existing CDFI lending models. CDFIs reported that, once early questions were resolved, the first-loss funding integrated smoothly with their operational processes and leveraged existing commercial facilities.
- **Clear, place-based targeting:** The London-focused eligibility criteria were simple to put into operation and either aligned with areas of high need or allowed CDFIs to further their reach into the London market. Analysis conducted by one CDFI showed that lending under the pilot was strongly concentrated in the most deprived deciles.
- **Supportive of pre-existing leveraging:** CDFIs that already had strong relationships with senior lenders were able to leverage additional capital more quickly as a result of the first-loss funding operating as junior capital.
- **Flexible, learning-oriented approach:** Both CDFIs and Responsible Finance approached the pilot as an opportunity to test and refine first-loss funding as a model for supporting personal lending CDFIs. This willingness to learn and adapt enabled issues to be resolved pragmatically as they arose.

Several operational barriers during implementation were also identified:

- **Loan attribution:** The initial misunderstanding around how first-loss funding should be attributed created unnecessary administrative burdens and delayed lending for some organisations. In one case, a CDFI had to revise its approach midway through the pilot, switching to a model that better aligned with its products.
- **Demographic data reporting:** In addition, requirements around demographic data, while valuable and central for evaluation, caused delays where CDFIs needed to amend IT systems and customer journeys before compliant lending could begin.
- **System shutdown of one CDFI:** An unexpected technical, operational matter affected one CDFI during the pilot period, and had implications for delivery volumes and timelines.

Despite these challenges, strategies to address these challenges were successfully adopted and implemented. These included the following:

- Updated guidance from Responsible Finance allowed CDFIs to shift their approach to loan attribution, resolving early confusion and significantly reducing the perceived administrative burden of reporting. This enabled faster deployment of funds.
- Although time-consuming, all CDFIs eventually integrated the required demographic fields into application systems, enabling compliant reporting without long-term disruption.
- CDFIs noted that ongoing communication with Responsible Finance helped address evolving questions. Responsible Finance reflected that more structured quarterly reviews could enhance consistency in future programmes, but informal communication was generally effective in resolving issues as they emerged.
- CDFIs adjusted internal processes (such as marketing approaches, segment targeting and loan product deployment) to maximise the benefits of the pilot, despite external disruptions or slower starts.

2.3.2 Delivery

Key delivery stakeholders reported that the pilot was delivered broadly in line with its intended design. The overarching aim – to use first-loss funding to expand affordable credit access for underserved Londoners and to test whether this mechanism could leverage additional private capital – has been fulfilled. Stakeholders across all organisations confirmed that the programme has enabled lending that would not otherwise have taken place, validating the core design and implementation logic. In practice, this meant more financially underserved Londoners could access safe, affordable credit to manage essential costs and avoid higher-cost or harmful alternatives. Moreover, CDFIs consistently reported that the structure of the fund was clear and well-suited to their existing business models, allowing them to integrate the facility with minimal disruption once initial reporting questions had been clarified.

Notably, one CDFI initially attempted to match the first-loss funding directly to each loan issued but later shifted to a model of attributing based on provision that was better suited to their

products. Provision-based allocation linked first-loss funding to the credit risk at a loan portfolio level rather than being matched to individual loans. This significantly improved reporting efficiency and enabled more flexible lending. Although this CDFI aimed to leverage the first-loss funding to secure accelerated or additional capital, external operational issues (a disruption with a prepaid card provider) limited their ability to raise new funding during the pilot. As a result, actual leverage achieved was below initial expectations, despite the structural logic of their approach being sound.

The three CDFIs adopted approaches to deploying the first-loss funding and leveraging additional capital that reflected their organisational structures, product types, lender relationships and operational capacity. They also produced varying levels of leverage. However, there were some common approaches that can be detected:

- The first-loss funding acted as a de-risking layer within the CDFIs' capital stack, essentially acting as junior capital. Without this funding, the CDFIs would either have had to source external junior capital (which is scarce and can attract a 9% interest cost) or provide the capital itself. Both would have led to lower overall lending than the grant approach.
- The first-loss funding layer absorbed early losses, protecting senior lenders, and enabling CDFIs to benefit from additional senior capital from an existing funding facility. In the case of one CDFI, this was provided each quarter, with the amount leveraged proportionate to the size of the first-loss layer.
- First-loss funding was used to expand lending to London residents within existing products and processes. The three CDFIs tried to leverage the fund within their existing senior facility without substantial restructuring. This was first-loss funding fed directly into existing senior lending facilities, enabling them to rapidly draw down additional commercial capital. This approach produced solid leverage and delivered lending strongly focused on Londoners who were within the lowest deprivation deciles.
- As early loans defaulted, the first-loss funding absorbed the losses and the buffer shrank. As borrowers repaid, the buffer increased. This again led to an upturn in leveraged capital.
- As loans were repaid, the first-loss funding was recycled, further expanding lending capacity and making this an evergreen source of funding.

The pilot was able to demonstrate the catalytic potential of first-loss funding leveraging more commercial capital that might otherwise not have been possible in all cases from existing funders and facilities. For example, one CDFI used the £200,000 first-loss funding grant to enable £1.6 million in lending to customers over 13 months. This enabled them to accelerate the deployment of £500,000 in commercial capital, recycle £530,000 and generate £400,000 in retained equity, with expectations for higher figures at 24 months. Another CDFI accelerated the deployment of £1,293,887 in senior capital between January and September 2025 that would not have been possible otherwise. This meant it was able to multiply the grant by a factor

of 22 (lending £4.6m to more than 4,000 customers), significantly boosting access to fair and affordable credit.

2.3.3 Participation and reach

In examining the participation of the key stakeholders, we found that:

- City Bridge Foundation, as the funder, intentionally adopted a hands-off approach to programme participation, allowing Responsible Finance and CDFIs to lead operational delivery. In part this reflected their newness to the CDFI sector. Their involvement centred on reviewing quarterly updates and helping clarify strategic expectations. While satisfied with delivery, they acknowledged that closer monitoring could have helped them understand why leverage differed across CDFIs.
- Responsible Finance acted as the convenor and programme manager. Its participation focused on supporting CDFIs to interpret fund conditions, managing quarterly reporting, liaising with City Bridge Foundation and troubleshooting implementation issues. Responsible Finance reported generally smooth engagement but noted that more structured, cross-CDFI learning and oversight could have enhanced consistency.
- The three CDFIs engaged fully and consistently throughout the programme to successfully incorporate the first-loss funding into their lending operations and reported quarterly on progress. The three CDFIs were selected partially because they had established track records in responsible consumer lending and existing demand from financially underserved Londoners. As a result, all three CDFIs reached the people they wanted to help, albeit at varying scales and speeds. As mentioned earlier in this report, differences in reach across CDFIs reflected organisational readiness, operational circumstances and product design rather than flaws in programme targeting.

In addition, existing and potential investors were also indirect participants in the pilot via the three CDFIs' attempts to leverage commercial capital through the first-loss funding. We will discuss their perspectives in more detail in the section below, but while investors were supportive of the pilot's potential, there were concerns around the pilot's scale that underscored long-standing views around the viability of first-loss funding as a standalone solution to the major challenges within the personal lending CDFI sector.

Evidence from the impact evaluation indicates that the first-loss funding enabled CDFIs to successfully reach the core target population of low-income and financially underserved groups in London. From the perspective of key stakeholders:

- The programme was designed to offer a safer alternative to high-cost or illegal credit through three London-focused CDFIs. All interviewees argued that the pilot succeeded in reaching this group.
- Lending was disproportionately concentrated in areas of highest need or households facing the greatest levels of financial exclusion, with one CDFI's internal analysis

showing that most loan recipients were in the lowest four deciles of the Index of Multiple Deprivation.¹

- The individuals and households supported by the participating CDFIs typically had thin or non-existent credit files, unaffordable borrowing options, and high levels of financial vulnerability. The first-loss funding enabled CDFIs to accept more of these applicants than would have been possible.

Customers were unaware that when they applied for support from the three CDFIs, they were borrowing under first-loss funding. As a result, any merits or challenges are not necessarily unique to first-loss funding, although it did help the three CDFIs reach out to more financially-excluded people. That said, from the perspective of those customers who ultimately received CDFI support, those we spoke to consistently described the application process as simple, fast, accessible, and non-judgemental. While some encountered minor barriers related to technology or product acceptance (for example, Fair for You's Food Club pre-loaded card), these did not prevent customers from completing an application or, ultimately, securing a loan. Instead, where challenges arose, CDFIs quickly intervened to resolve them in a supportive and flexible manner.

Qualitatively, we found that there was a remarkably consistent customer experience across the CDFIs, with customers feeling they were treated with dignity, given clear information, and received decisions quickly. For many, this contrasted sharply with past experiences of high-cost credit, payday lenders and even mainstream financial institutions that they felt were either hostile or inaccessible. In particular, two key areas were commonly mentioned:

- **Simple and streamlined processes:** Customers across all three organisations emphasised how easy it was to apply for a loan. Those we spoke to frequently described applications as quick, simple and easy. Many said that the CDFI required only essential information, with no excessive paperwork. Salad Money customers, for example, described the digital onboarding and Open Banking affordability checks as easy to navigate, with decisions communicated promptly via app or email.
- **Speed of decisions:** Fast decision-making was repeatedly cited as a strength. Several of those we spoke to noted that quick decisions were vital during moments of acute financial stress, such as needing food during school holidays or managing emergency household costs.

While customers generally described the process as smooth, a small number of those we spoke to mentioned barriers in the application process around temporary ID verification issues,

¹ The [Index of Multiple Deprivation](#) is an area-based measure of relative deprivation in England. It ranks small neighbourhood areas according to a combined score across several domains, including income, employment, education, health, crime, barriers to housing and services, and the living environment. Where loan recipients are concentrated in the lowest four deciles, this means they are disproportionately located in the 40% most deprived neighbourhoods in England and therefore live in neighbourhoods experiencing higher levels of deprivation across a range of social and economic indicators.

initial nerves about applying, minor confusion navigating online forms and some periodic app delays or employer system timings affecting loan disbursement. Importantly, none of these factors prevented access to credit, and in all cases CDFIs acted swiftly to resolve issues.

2.4 Lessons for future first-loss funding

There was strong consensus that an effective first-loss funding programme must have a clear, shared purpose for CDFIs, funders and investors. Some potential investors and funders we interviewed emphasised that the pilot highlighted a key ambiguity of first-loss funding: there are competing interpretations of what it is for. Some saw this pilot chiefly as a mechanism to protect senior lenders, while others viewed it primarily as a route to expand financial inclusion, reduce APRs or increase CDFI sustainability. As one social impact investor we spoke to put it, a long-term programme requires greater clarity about what first-loss funding is intended to achieve, who it seeks to benefit, and what risks it is designed to mitigate.

From our interviews, five key ingredients emerged that would optimise the impact of long-term first-loss funding:

- **Increasing the scale of first-loss funding:** Stakeholders consistently indicated that transformational impact requires significantly larger pools of first-loss funding, ideally seven-figure allocations per CDFI.
- **Stronger regulatory landscape:** Without a government guarantee (for example, through the British Business Bank), commercial lenders cannot scale lending to personal finance CDFIs due to risk-weighting and capital constraints. There was a strong advocacy for learning from enterprise-lending CDFIs where the British Business Bank (BBB)'s Growth Guarantee Scheme (GGS) significantly increased investor participation.
- **Sustainable capital flows:** Investors stressed the need for long-term, patient, low-cost capital. This is something neither the commercial nor charity sector can deliver alone.
- **Creating a "demonstration phase" to build confidence:** Before large-scale rollout, investors suggested a structured demonstration stage which includes standardised reporting, controlled cohorts, and clearer risk modelling.
- **Improving investor visibility of performance:** This could include harmonised reporting standards, shared loss data and/or cross-CDFI portfolio dashboards. All of these functions are prerequisites for mainstream capital mobilisation.

There was widespread agreement that first-loss funding must reach a meaningful scale if it is to materially influence lending decisions. The pilot grant of £200,000 per CDFI was described as helpful to indicate the potential of first-loss funding. However, this was not considered enough to change risk appetite, adjust pricing, unlock large-scale senior lending, absorb potential early losses or significantly influence credit committees at commercial lenders. One commercial investor we spoke to stressed that commercial banks require first-loss funding "large enough to change the shape of the tail risk". CDFIs themselves echoed this, noting that around £1 million per CDFI would be necessary to move from incremental to transformative impact. It was noted

that even some philanthropic funders were hesitant to provide first-loss funding due to discomfort with CDFI pricing models, particularly around their high APRs, creating potential limitations on grant-based, first-loss funding approaches.

There was a strong emphasis from investors and CDFIs alike that first-loss funding alone cannot close the affordability gap for financially underserved consumers. Investors were sympathetic to the challenges in the personal lending space, stressing that CDFIs in this sector are often “trying to do more with far fewer tools”. Even with first-loss funding, a commonly-acknowledged barrier was that personal lending CDFI loans carry unfavourable risk weights compared with enterprise-lending CDFIs. As such, there was an interest in seeing first-loss funding paired with other public policy tools that do not currently exist for personal lending CDFIs, but have been introduced, in some cases, for enterprise-lending CDFIs to underpin commercial investment and growth in lending. These tools include the following suggestions:

- A government-backed guarantee (such as the BBB’s Growth Guarantee Scheme).
- Tax incentives (such as a Community Investment Tax Relief-equivalent for personal lending).
- Long-term, wholesale funding at preferential rates (such as the BBB’s Community ENABLE Funding programme, known as CEF).
- Grant subsidy for operational costs associated with high-need borrowers, who face significant barriers to obtaining traditional, low-cost credit.

In addition, commercial lenders emphasised that, without addressing the current regulatory framework surrounding personal-lending CDFI loans (such as risk-weighting, capital requirements, and consumer credit perceptions), banks cannot scale into this market. First-loss funding therefore needs to be integrated into a design that reduces regulatory barriers such as accreditation schemes, Government guarantees or revised regulatory guidance. Here, multiple investors noted that only the BBB has the credibility, operational experience and market recognition within the enterprise-lending space that could be transferred relatively easily into the personal-lending space. The BBB was therefore considered a potentially significant anchor institution that could best support a long-term, large-scale, multi-investor structure for personal-lending CDFIs.

Stakeholders consistently noted that the three goals of first-loss funding (increasing leverage, higher recycling, and lower customer interest rates) cannot all be maximised simultaneously. Choices need to be made on where to prioritise focus. As a result, investors agreed that, for any long-term programme, maximising leverage should be the priority, with recycling pursued but a secondary objective. In addition, they said APR reduction should be a long-term and incremental ambition, but not the primary aim. The justification for this was that the first-loss funding would need to be extremely large to reduce APRs meaningfully, effectively replacing a portion of operating income. This is something that investors and CDFIs agreed is not realistic at modest scale.

Moreover, an important nuance highlighted by some interviewees was that the goal of CDFI lending is not cheaper credit per se, but *safer* credit, which is characterised by no late fees, flexible repayment, fair underwriting and adequate consumer protection. First-loss funding supports this by enabling CDFIs to serve an increased pool of riskier, but still viable, customers. As a result, it was suggested one focus could be on improving affordability through flexible products, not APR reduction, maintaining APRs at sustainable levels and using first-loss funding primarily to unlock new sources of capital.

From these perspectives, we provide a summary overview below of good practice for future delivery and what improvements stakeholders believed to be necessary for the implementation and delivery of future iterations or a longer-term programme.

2.4.1 Best practice for future delivery

Across the first-loss funding pilot's implementation, delivery and participation, three key elements of the programme worked well:

- **The pilot increased lending capacity:** The first-loss funding successfully strengthened CDFI balance sheets and increased their confidence to lend to financially-underserved customers. For CDFIs, this translated into greater lending headroom and an ability to continue lending during a period of heightened financial pressure on low-income households. This worked because the first-loss funding mechanism aligned well with existing CDFI risk management practices and did not require fundamental changes to underwriting models.
- **The pilot aligned strongly with current CDFI practice:** Allowing CDFIs discretion over how funds were deployed ensured lending remained mission-led and responsive to local needs. Customers benefited from continued access to safe, affordable credit, reinforcing the social value of the intervention. This worked because the programme avoided over-prescription and trusted CDFIs' frontline expertise. Moreover, CDFIs that had strong, established relationships with commercial funders were able to leverage the first-loss funding much more rapidly. Senior lenders were more willing to recognise the first-loss funding within credit risk models when they already understood the CDFIs' operational performance.
- **Delivery partnerships were effective:** Responsible Finance, City Bridge Foundation and the CDFIs worked collaboratively to resolve issues, demonstrating the sector's capacity to deliver complex, blended finance instruments. The approach of both City Bridge Foundation and Responsible Finance was broadly viewed positively, with CDFIs valuing having a single technical point of contact that understood the sector. CDFIs valued light-touch oversight combined with informed technical support. This worked because it balanced accountability with flexibility and reduced administrative burden.

2.4.2 Improving future delivery

Across the implementation, delivery and participation within the first-loss funding pilot, four key elements of the programme worked less well:

- **Clarity of purpose, expectations and success measures are needed upfront:** Future first-loss funding programmes should explicitly state whether the primary aim is to increase lending volumes, unlock additional, accelerated or new external capital, reduce customer rates or support higher-risk borrowers. Clear objectives would align stakeholders and improve evaluation. To support this, implementing uniform reporting on loan performance would build investor confidence and support risk modelling for mainstream capital.
- **Lack of clarity around reporting requirements caused delays:** There was some initial misunderstanding around how first-loss funding should be attributed to loans, which created substantial administrative burdens and slowed deployment. In addition, new demographic data requirements, including ethnicity, required some CDFIs to reconfigure application processes before lending could begin and this contributed to some delays. In both instances, challenges were resolved, but this highlights the value of defining data expectations and operational clarity at programme inception.
- **First-loss funding alone is not enough to attract new mainstream investors:** Despite improving the investment case, first-loss funding did not, on its own, overcome wider structural barriers such as regulatory capital requirements, a lack of Government guarantees or reputational concerns around personal lending. As a result, new investor participation was limited during the pilot period. Stakeholders consistently emphasised that first-loss funding must be combined with Government-backed guarantees, tax incentives (for example, a CITR equivalent for personal lending) and regulatory support to achieve scale. Without this, first-loss funding will remain catalytic but limited. In addition, future programmes could provide larger and longer-term commitment to first-loss funding to enable meaningful changes in lending behaviour, pricing and investor engagement.
- **Support for organisational readiness and shared learning is critical:** Future programmes could include tailored onboarding and technical assistance to help all CDFIs maximise the benefits of first-loss funding. Responsible Finance and CDFIs also suggested there would have been value in structured, regular peer learning to share insights on attribution, leveraging strategies, fundraising and investor engagement.

These limitations of the first-loss funding pilot were largely contingent on its design rather than major structural barriers. For example, although the most frequently cited limitation was the relatively modest size of this first-loss funding, this is not a fundamental flaw in first-loss funding in general. Rather, stakeholders were clear that first-loss funding must reach a certain threshold to influence credit policy and risk appetite. The pilot's scale was intentionally limited, and the resulting constraints reflect a design choice rather than a failure of the mechanism. Scaling up first-loss funding, where feasible, would be widely supported by key stakeholders. Likewise, issues around attribution, reporting and CDFI readiness are straightforward to resolve and were, in fact, largely corrected during delivery of the pilot. They point to the need for smoother design and onboarding processes for any future programmes, with clearer upfront guidance rather than a need to correct any structural issue.

The most significant barrier to overcome was around the perspective that first-loss funding may not, on its own, unlock significant volumes of new commercial capital. However, this

reflects external system constraints, rather than a weakness of first-loss funding per se. First-loss funding is necessary but insufficient on its own; without complementary public policy tools, its impact on investor participation will remain limited. These barriers are resolvable but require considerable public policy-level action rather than programme-level adjustment.

2.5 Process evaluation conclusions

We found that the first-loss funding pilot was conceptually sound, and that it had been implemented and delivered in a broadly successful way. The pilot demonstrated that first-loss funding can increase CDFI lending capacity, de-risk investment, and support access to affordable credit for financially-underserved households.

Most of the challenges encountered do not undermine the core logic of first-loss funding or reflect fundamental weaknesses in first-loss funding as a long-term intervention. Instead, they largely stem from issues of scale, clarity and wider ecosystem constraints that can be mitigated via:

- larger and longer-term funding commitments;
- clearer articulation of purpose and expectations;
- improved operational guidance;
- stronger data and reporting frameworks;
- integration with additional policy tools.

Ultimately, the central lesson of the process evaluation is that first-loss funding works, but only within the right enabling environment. The pilot should therefore be viewed not as a test of whether first-loss funding is viable, but rather as a demonstration of how it can be structured, supported and scaled to deliver lasting impact, learning from both what worked well and where improvements can – and should – be made.

With relatively modest refinements at programme level, and more substantive changes at policy and system level, first-loss funding has the potential to form a cornerstone of a sustainable, long-term approach to expanding access to affordable credit through CDFIs to financially-excluded individuals and households.

3.Impact Analysis

3.1 Impact analysis methodology and analytical framework

3.1.1 Research questions

This analysis aims to show the impact of the grant on:

1. investment raising,
2. CDFI lending, and
3. individuals (loan recipients).

To demonstrate these, we developed a set of research questions that will be answered by the impact assessment:

Category	Research question
Investment raising	1. What is the ratio of external investment leveraged by the grant? 2. What is the impact on investors' decisions to provide capital to CDFIs, including their willingness to invest, and the amount of capital provided, as well as the cost of capital charged? 3. What is the impact of the grant on CDFIs' ability to raise new capital and for how long (for example, does it make it easier and, if so, to what extent and what are the reasons for this)? What happens if CDFIs can't access the fund? 4. Are non-investors more likely to invest in CDFIs with first-loss funding and, if so, what percentage of losses would they want the CDFI to guarantee in order to seal this?
CDFI lending	5. How many new loans are facilitated by the grant (for example, increased income, lending capacity, increased confidence among existing and potential investors)? 6. How many times has the grant been recycled? 7. What is the loss rate realised on the loans funded, and how does it compare with those prior to the first-loss funding?
Individuals	8. How many additional Londoners (and, by extension, underserved groups) have been lent to as a result of the grant, and what is the total value? 9. What are the impacts on loan recipients over time (for example, change in subjective wellbeing, claiming benefits, signposting to

other services, debt reduction, improved health, less use of illegal lending)?

10. What are the experiences and perspectives of customers whose loans are supported by the fund, and how have the loans impacted on their lives? What happens if CDFI loans are not available to them?
11. What is the impact on CDFIs' cost of lending and interest charged to customers?
12. Are there markets and demographics that CDFIs can serve due to having first-loss risk cover in place?
13. Are there additional impacts enabled by increased funding (lending, interest payments saved by customers and demographics reached)?
14. What are the benefits to society as a result of first-loss funding? Examples include reduced illegal lending, housing problems, and use of food banks, as well as improved physical and mental health, increased employment and productivity, and improved child outcomes (for example, better nutrition).

3.1.2 Impact analysis approach

To answer the research questions, we adopted a mixed methods approach, combining quantitative and qualitative assessments to evaluate the impact of the grant.

- **Quantitative:** This involved identifying the key aspects of what might happen with and without first-loss funding. The evaluation followed the Magenta Book, the UK Government's guidance on evaluation, and using **existing impact reports** and **quarterly CDFI returns** to compare:
 - **CDFIs:** Due to limited data available to synthesise a control group, we adopted a before-and-after analysis using data from the three CDFIs only, based on the quarterly CDFI returns which provided details of individual loans. Although this means that we cannot isolate external factors, we supplemented the analysis with interviews with the CDFIs, existing reports and relevant sector data to help contextualise the changes observed.
 - **Individuals:** We compared the characteristics and outcomes of loan recipients to broader benchmarks and drew on findings from impact reports produced by Responsible Finance and the CDFIs. While this approach does not provide a robust counterfactual, it provides insights into the programme's reach and potential effects and enables us to triangulate impact through multiple evidence sources.
- **Qualitative:** A set of semi-structured interviews were conducted with Responsible Finance, CDFIs and their investors as well as focus groups and semi-structured interviews with CDFI customers. This gathered qualitative insights allowing for

triangulation with other data to complement the quantitative evidence on changes in the outcomes for CDFIs, individuals and the wider society identified in the logic model. Stakeholder engagement is very important to fill in the gaps where quantitative data alone cannot give sufficient insights. This is particularly the case as the three CDFIs have different business models and target customers. For example, Salad Money targets lending to NHS and public sector workers alongside other employed borrowers, whereas Fair for You does not provide cash loans but loan products such as Iceland food cards or shopping cards, while Fair Finance provides small cash loans for up to 24 months with referrals from banks through strategic partnerships.

The impact analysis focuses on three key dimensions: the external capital enabled for lending by the programme, the lending activity of participating CDFIs and the effects observed for customers. For each dimension, we drew on both qualitative and quantitative evidence to highlight the impacts. The findings are structured to provide a clear view of the first-loss funding's outcomes, while acknowledging the limitations in attributing effects solely to first-loss funding.

Summary of key findings

- The initial £600,000 grant has facilitated £2.4 million in accelerated capital from existing investors and facilities, in turn supporting £6.97 million in loans to more than 8,300 customers.
- More than half (56%) of these loans were issued to new customers, and first-loss funding helped CDFIs to support a range of financially-vulnerable and underserved groups including women, lone parents, people on low incomes, social housing tenants, people living with a disability and benefit recipients.
- Despite the perceived high-risk nature of lending to some of these groups, the loans were found to have low arrears (7.3% of total loans), default (3.3%) and write-off (3.8%) rates.
- With a weighted average interest rate of 60% APR, CDFI loans are substantially lower-cost alternatives compared with high-cost credit averaging around 1,250% APR, resulting in interest savings for borrowers.
- Consumers also qualitatively reported wider impacts of the loan on their ability to manage debt, improve financial confidence and reduce financial stress, feel better, improve productivity and stability, and see improvements in their mental and physical health.

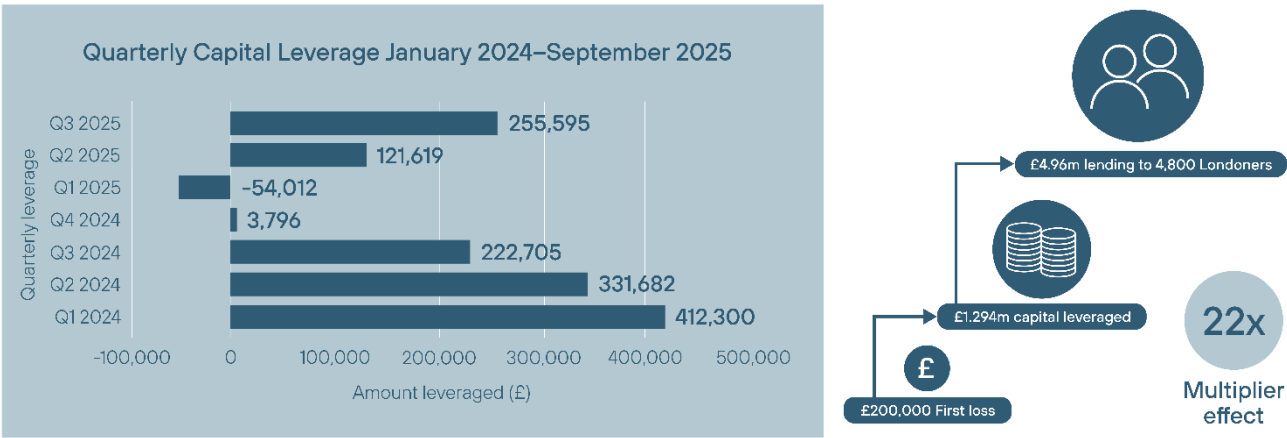
3.2 Impact on investment

In addition to the first-loss grant funding, CDFIs have been able to leverage additional or accelerated capital from existing investors and facilities. By Q3 2025, the City Bridge Foundation grant has enabled the three CDFIs to leverage nearly £2.4 million from existing

investors and facilities. In other words, the CDFIs were able to leverage £4.03 for every £1 of grant funding.

In practice, first-loss funding operated as junior capital, absorbing early credit losses and protecting senior lenders. Figure 1 demonstrates how this leveraging functions in the case of Salad Money. The £200,000 first-loss grant did not increase the total senior facility committed by its investor. However, because the facility had a 95% advance rate, Salad Money was required to provide the remaining 5% of each loan from more expensive and constrained junior capital. The grant effectively acted as junior capital within the funding stack, reducing this constraint and enabling Salad Money to draw down senior funding more quickly and at a lower blended cost. It therefore helped mobilise and accelerate the deployment of existing senior investment, while strengthening the resilience of the loan book and supporting additional lending.

Figure 1: How Salad Money accelerated deployment of senior capital using first-loss funding



The figures on external capital raised in the programme were self-reported by participating CDFIs as part of the programme monitoring. These figures provide useful insight into first-loss funding's role in facilitating external capital. During the course of the pilot, no new external investors were brought onboard; rather, additional capital was leveraged from existing funders and facilities, reflecting the importance of the first-loss funding for relationships already in place. Lending capacity was further expanded as losses were absorbed and repayments recycled. One CDFI reflected that the grant had been pivotal in leveraging additional funding from an existing facility and provided the catalyst to leverage larger amounts of commercial capital than would otherwise have been possible. CDFIs explained that there was not sufficient time to source new funders within a two-year pilot and limited grant size.

First-loss funding does not operate in isolation. Therefore, as the investment was deployed from existing facilities and investors, it cannot be considered solely attributable to the first-loss funding grant. For example, Fair4All Finance has committed more than £50m to personal-lending CDFIs across a range of programmes, including their No Interest Loan Scheme (NILS) pilot and guarantees of investment by other impact-focused investors.^{xii} Of this, more than

£25m in grants and social investment has been drawn down by the three CDFIs receiving the City Bridge Foundation grant. This support from Fair4All Finance – alongside junior capital by other impact investors – plays a significant role in enabling CDFIs to expand their lending, including by leveraging in senior capital. This uncertainty is a feature of the evaluation design and is accounted for in our BCR calculation.

There was a consensus among potential and existing CDFI investors we interviewed that a first-loss mechanism can help de-risk investment, helping to attract commercial lenders who would otherwise be reluctant to enter the market. For some impact-focused investors, it was suggested that even a relatively small layer of first-loss funding can significantly shift downside risk, making it possible to commit larger sums at affordable rates and to reach more marginalised and financially-excluded groups. However, this was not observed as part of this pilot, and most potential investors explained that it would require a larger grant that is not only provided over a longer time horizon but also combined with other supporting factors such as guarantees to expand the funding base for CDFIs and further increase their lending capacity.

However, one major concern for most investors is that small-scale first-loss funding does not significantly reduce the APRs in the sector, an issue that brings with it reputational concern and can be a barrier to investment. This consideration was shared by the participating CDFIs themselves. Over the longer term, larger-scale grant funding – combined with additional support such as strategic involvement from banks or social investors – could reduce costs and enable lower lending rates.

In addition, investors want clarity on how and where the first-loss subsidy is applied. Indeed, some investors suggested combining first-loss funding with other mechanisms such as loan guarantees, which can address the perception of risk. In simple terms, first-loss funding absorbs initial losses and therefore reduces the risk borne by investors, while a loan guarantee provides a backstop for specific loans that protects investors against residual risk. Loan guarantees were therefore seen as a complementary instrument that provides confidence to senior lenders, while first-loss funding absorbs actual downside risk.

Overall, investors recognised first-loss funding as a powerful catalytic mechanism. They noted it must be flexible, well-structured and – if it is to enable CDFIs to scale sustainably – ideally paired with tools like guarantees, operational capacity building, and supportive regulation. Some called for personal lending CDFIs to have similar policy infrastructure to the business-lending CDFIs.

Moneyline's impact on raising investment

At the time of the analysis, Moneyline had not yet attracted additional, accelerated or new external capital. This is likely to reflect the relatively early stage of the funding's deployment and the limited timeframe covered by this evaluation.

3.3 Impact on CDFI lending and business development

While the size of the first-loss funding pilot is limited, it supported £6.97 million lending to more than 8,300 customers in less than two years (November 2023 – September 2025), and these numbers continue to grow as the first-loss funding is recycled. Meanwhile, all participating CDFIs reported minimal impact on their business models or financial product offerings. On the whole, their lending processes and service delivery have remained largely consistent, other than the ability to lend to more customers facilitated by the grant. There are some noteworthy developments linked to the grant funding:²

- One CDFI explained that, although no significant operational changes were made as a result of the pilot, they used some of the initial grant to implement a new assessment process and, ultimately, a new way of lending as well as some initial brand awareness and marketing given the broader client base that could now be serviced.
- Another CDFI explained that the grant supported overall business growth, including the expansion of the customer account management team, and was absorbed into business-as-usual operations. It also agreed that the grant contributed to its rapid scaling of the loan book, although it is difficult to attribute a specific portion of growth solely to the grant.

Because first-loss funding is not implemented in a vacuum, its direct attributable impact is difficult to separate from other business developments. However, the evidence illustrates positive adaptations and capacity-building within the CDFIs, including a strong recycling effect in lending. As the grant is evergreen, it provides additional capital that can be lent to customers, while repaid funds can be reused for further lending. This mechanism allows the grant to support ongoing lending activity and extend its impact over time. Our figures collected from the three CDFIs confirm the presence of this strong recycling effect. Given the crowding in of private investment and the short-term nature of many small loans, up to £11.62 of lending was generated for every £1 of first-loss funding, of which £4.03 is attributable to accelerated or additional capital being enabled for lending as a result of the grant.

It is also worth highlighting the innovative approaches CDFIs have used to manage risk. For example, some use their own custom credit scorecard, open banking data and/or machine learning for lending decisions. Despite lending to customers from demographics that might be perceived as higher risk, they demonstrated effective risk management, with low rates for loans that were either in arrears (7.3% of total loans), default (borrowers failing to repay under the loan agreement, 3.3%) or written off (loans deemed unrecoverable, 3.8%). To provide context, the charge-off rates (the proportion of loans that are written off) in the S&P UK credit card asset-backed securities (ABS) index, which tracks the performance of UK securities backed by pools of credit card debt, was 3.06% in Q3 2025. This illustrates that unsecured credit portfolios experience default losses at levels similar to those observed in the CDFI portfolios analysed.^{xiii}

² The following points refer to the £20,000 grant provided to each CDFI under the pilot to cover delivery costs. The operational costs described above, including marketing and the development of the new assessment process, were funded from this £20,000 grant and not from the separate £200,000 ring-fenced for first-loss funding.

However, we cannot determine the extent to which loss rates on loans funded through first-loss funding have changed compared with the period prior to the programme.

Moneyline's lending

In the first two quarters of 2025, the fund supported £73,850 in lending across 192 loans. At the time of analysis, 29.4% of loans were recorded as being in arrears. Most of these loans related to shorter-term missed payments (approximately 47% were up to 30 days and another 41% for 30–60 days). 12.8% were classified as defaulted. However, no loans had been written off. These figures should be interpreted with caution given the early stage of the loan portfolio.

3.4 Impacts on customers

On the customer side, we focused on the scaling up of existing benefits, rather than attributing new types of outcomes to the programme. The programme has enabled CDFIs to extend their existing services to more customers who are mostly financially-excluded or have limited access to affordable credit. By providing additional lending capacity and facilitating loan recycling, the grant has helped scale up the benefits that CDFI customers experience, such as access to affordable credit, improved financial wellbeing, access to unclaimed benefits, financial support and savings from lower interest rates.

3.4.1 Demographic characteristics of customers

First-loss funding has helped extend financial access to underserved groups by enabling CDFIs to reach new customers who may otherwise have struggled to obtain affordable credit, rather than simply supporting existing borrowers. Of the loans for which customer status could be identified, approximately 56% were issued to new customers.³

Research has found that women^{xiv} and ethnic minorities^{xv} are more likely to be financially vulnerable than the average population. A comparative analysis of borrower demographics with London's general population reveals that first-loss funding is clearly reaching and supporting those who are more likely to be financially vulnerable.⁴ Borrowers were disproportionately female, compared to the female population in London (65% versus 51% in London). While 72% of borrowers were white (largely reflecting the customer base of one CDFI), 18% of borrowers were of Black ethnicity compared to 11% of the general population.

³ A total of 5,800 loans were provided with customer status.

⁴ Due to data availability issues, one CDFI could only provide the age and gender of its customers, but not other socio-economic characteristics (including ethnicity, incomes and housing status). For a fair comparison, we compared its customers with England's population, while the other two were compared with London's population. We constructed a weighted population benchmark (London and England) based on the number of loans each CDFI made. We then compared the aggregated CDFI customer profile with it to estimate the impact of the first-loss funding.

Nearly 61% of borrowers were aged 25–44, and a further 35% were aged 45–64, which is higher than the London population within these age cohorts. A significant proportion of the pilot’s customers live in social housing (43% versus 21% in the comparable group) or private rentals (36% versus 27% in the comparable group). Although not all private renters are financially vulnerable, the English Housing Survey found that they were, on average, more financially vulnerable than owner-occupiers.^{xvi} Compared with the general population, customer profiles show a higher share of both employed (77% versus 72%) and unemployed people (21% versus 4%). Students, retired people or others accounted for only a small proportion (2%). Income data reinforced the picture of vulnerability: 25% earned £21,301 or less compared with 21% in the comparable group. Borrowers were more likely to be single with no children (44% versus 29% in London) or lone parents (21% versus 13% in London). Additional indicators highlighted further challenges for their customers: 18% reported living with a disability and 28% receiving benefit income.

Moneyline’s impact on underserved groups in the Midlands

Moneyline served a slightly different customer profile to the other CDFIs in the programme. As of Q2 2025, 46% of its customers were female (versus 51% overall in the West Midlands). They were more concentrated in the 25–44 age bracket (69% versus 33% in the West Midlands). Household structure differed too: a notable 45% were couples without children. While most customers (82%) were employed, 18% of Moneyline’s customers were unemployed (versus 4% in the West Midlands). As with the London-based CDFIs, Moneyline’s clients were typically more financially vulnerable. A large majority lived in either social housing (27%) or private rental properties (38%), in stark contrast to the 64% of people who are owner-occupiers in the West Midlands. Again, income levels reinforced this vulnerability: 69% earned £25,824 or less per year (versus 39% in the West Midlands). Other indicators of financial vulnerability were also higher among Moneyline customers, with 39% receiving income benefits, a figure significantly higher than for the general population (14%).

3.4.2 Improved financial wellbeing

CDFI loans provide more than just access to finance. They contribute to a range of outcomes that collectively enhance customers’ financial wellbeing. By offering swift, affordable and accessible credit, CDFIs help customers manage debt, improve financial confidence and reduce financial stress. Beyond lending, they also provide practical financial support and guidance – such as benefits calculators, money toolkits and signposting to other services such as debt advice – making a valuable contribution to financial resilience and education to borrowers. These benefits are often interrelated, supporting better day-to-day financial management and improved mental and physical health.

For example, two-thirds (67%) of customers borrowing from Fair for You to purchase household items reported a positive impact on their health and wellbeing. Specifically, there was a 33% reduction in the proportion of customers reporting feelings of stress, depression and anxiety

after receiving the loans, and 18% more customers reported feeling in control of their daily lives.^{xvii} Similarly, there was a 41% reduction in their Food Club customers reporting stress, anxiety and depression. Prior to joining Food Club, 45% reported finding managing financially either “quite” or “very” difficult, with this percentage dropping to around 25% since joining Food Club.^{xviii}

During our interviews and focus groups with CDFI customers supported as a result of the pilot, several key benefits were identified:

- **Reduced financial stress:** Customers repeatedly described relief, peace of mind, and the ability to plan ahead. Being able to afford food and essentials removed anxiety about daily survival.

“It just alleviates that pressure and that worry that you might have for that period in time.”

“[A CDFI loan is] stress-free and is one thing you don’t have to worry about.”

“It takes a weight off your shoulders really... I didn’t want to take out payday loans with high rates.”

- **Improved financial confidence and management:** Transparent repayment plans and non-judgemental communication increased confidence and control. Customers described CDFI loans as helping them budget effectively due to structured repayment plans.

“You have a record of how much is left [to repay]. With other places or experiences you’re kind of just guessing how much you have left to pay. I feel good because I know the payments are manageable.”

“It’s like dealing with a friend or family... you don’t feel judged.”

“You can set it to when you get paid... they were fine with changing it - no problem.”

“It’s like a saving for me at £10 every week, it doesn’t feel like much, and it adds up.”

- **Improved productivity and stability:** By reducing financial worries, CDFI enables people to focus more on work and family. For some, the financial stability indirectly enhances productivity and employability – meaning the ability to both sustain employment and return to work.

“It took a weight off my shoulders so I could focus on work and the kids.”

"It means I haven't got to stress so much about paying back stuff... I can focus on other things."

"Securing the loan provided financial relief and stability, allowing me to avoid high-interest payday loans and manage my finances better."

- **Better subjective wellbeing:** Customers expressed pride and emotional relief at being able to provide for their families. They linked this to feelings of dignity and 'normality'.

"It makes me feel good when I see the food delivery come; I know the kids will eat."

"I don't feel harassed or judged... they make you feel human, not like you've done something wrong needing help."

"The loan helped me furnish my home according to my family's needs... it's been a great help. It just makes the house feel calmer."

- **Better mental and physical health:** Lower stress and more consistent food access supported improved wellbeing. Parents of children with additional needs noted calmer home environments.

"If I'm stressed, it pours out. The [Fair for You] card takes that away."

"Payday loans were the worst thing I ever did... this is a whole different experience. It's a lot less stressful in so many ways."

"Even if you're skint and you've got no food in, you know that within half an hour you could be online getting an order. That takes away so much worry."

- **Better debt management:** Customers avoided predatory loans and learnt to manage repayments. High levels of forbearance – including lack of fees and responsible borrowing practices within CDFIs – help customers build their financial responsibility and credit scores.

"They don't judge you for missed payments, they help you. It's helping me rebuild my credit."

"You can top up your loan, but you have to pay at least 60% off – it stops you over-borrowing."

"There's no late fees, no harassment... they just text to say you've missed a payment, and you catch up."

Furthermore, there is mounting evidence showing poor financial wellbeing is linked to levels of employment and productivity in the economy. Financial stress negatively impacts worker productivity by increasing cognitive load and harming mental and physical health. This can present in:

- absenteeism, where workers miss work, reduce output and affect company productivity;
- presenteeism, where workers are less effective at work due to reduced focus, concentration and efficiency, and
- economic inactivity, where workers may be forced to leave the workforce due to debt and financial difficulties.^{xix}

A Centre for Economics and Business Research (CEBR) report finds that on average, 4.7 working days were lost over a year due to workers' financial worries. Additionally, of all workers experiencing a drop in productivity due to financial distress, the average time lost was 2.6 hours per day.^{xx}

3.4.3 Access to unclaimed benefits and financial support

In addition to lending, CDFIs also support eligible customers in accessing unclaimed benefits and other financial entitlements through benefit checks. These checks help customers identify support they may not be receiving. For example, one CDFI has identified approximately £1.36 million in unclaimed benefits among its customers (or £797 per person) who received loans through the programme.

CDFIs also provide other wraparound services such as signposting to money advice. While quantitative analysis of the full impact of this support is not available, targeted support can directly and materially improve household stability and reduce stress. For example, Fair Finance has previously assisted a client in writing off debt due to health issues, enabling her to subsequently repay rent arrears and reimburse a friend.^{xxi}

3.4.4 Savings from lower interest rates

Our customer research revealed that CDFIs fills a gap between informal – and potentially unsafe – credit options and inadequate income from social security. Customers consistently describe CDFI lenders as the only fair, humane and/or workable option available to them. Without CDFI support, a range of counterfactual options were presented including:

- **Payday loans:** For most customers, this was seen as the only alternative source of credit to CDFI support, but it was described as “high interest” and “a nightmare to repay”. Feedback given as part of our research showed that the thought of using payday loans and associated debt spirals was linked to a strong sense of anxiety and a significant loss of control by customers.
- **Credit cards or Buy Now Pay Later products:** These products had been used by some customers in the past to make purchases before they could access CDFI support. Customers associated these products with higher costs, confusing terms around late

fees in particular and the risk of arrears with the potential for long-term debt accumulation.

- **Borrowing from family or friends:** Informal lending from personal networks was largely seen as a measure of last resort by some customers. This was a source of finance that was described as “embarrassing” as well as being seen as unreliable and creating dependency. Many we spoke to had limited social networks they could ask – or they had already strained relationships that would be worsened by asking for financial support.
- **Going without essentials or delaying purchases:** A common fallback that was mentioned would be to skip on paying some bills, cutting back on food, or postponing repairs. Such decisions came with significant potential consequences for food insecurity and poor domestic living conditions.
- **Relying on Universal Credit alone:** For low-income households, Universal Credit alone was inadequate to cover shortfalls – especially emergency need, such as replacing white goods or home furnishings – not least because of frequent delays and deductions from social security transfers.

Regardless of the alternative source of finance, the most likely outcomes for most customers would be increased debt burdens, greater stress and hardship, and reduced wellbeing and stability.

CDFIs’ ability to fill gaps in the credit market has direct positive implications for customers’ financial outcomes, particularly in terms of interest savings. The three CDFIs supported by the City Bridge Foundation grant have distinct operating models. One, for instance, provides prepaid shopping cards or loans for white goods instead of cash loans. Another lends specifically to NHS and public sector employees, among other employed workers, using machine learning for affordability assessments, while a third provides small personal loans for any purpose. The weighted average interest rate across all loans was 60%, with some CDFIs offering products with zero or low interest rates.⁵ Although the annual percentage interest rate (APR) is higher than the maximum 42.6% APR cap for a credit union loan, CDFIs fill the gaps in the market that credit unions would not be able to serve due to the borrowers’ perceived higher risk and the need for bespoke wraparound support.^{xxii} Meanwhile, it is significantly lower than the average 1,250% APR charged by high-cost, short-term credit (HCSTC) providers.^{xxiii} A Responsible Finance report estimated that CDFIs saved people an average of £377 in interest on an average £600 loan over six months when compared to the HCSTC alternatives.^{xxiv}

⁵ Fair for You has a weighted average interest rate of 32% based on two products – one with a 51% APR and one (Food Club) with a 0% APR. Salad Money has a weighted average interest rate of 50% based on offering products with an APR between 47.18% and 59.97%, with some 0% APR products. Fair Finance has a weighted average interest rate of 97% based on offering products with an APR between 66.84% and 125.2%, with some 0% APR products.

3.4.5 Wider community benefits

There are also wider societal benefits associated with CDFI retail lending. By helping to fill gaps in the credit market, CDFIs reduce the likelihood that individuals turn to illegal or high-cost lenders, where it was estimated that up to 1.08 million people borrowed illegally in 2022.

Improved access to affordable credit can also have positive spillover effects on households and communities. For example, one CDFI offering prepaid food cards reported significant improvements in customers' nutrition, diet and overall health. For example, Fair for You's impact report showed that 71% of its customers reported improvements in their diet due to Food Club, of which 34% said the Food Club had helped entirely.^{xxv} It also showed a 41% increase in customers eating fruit for three and four days per week. The positive outcomes extended to their children as well, as reported in customer interviews.

Customers also described being better able to heat their homes and reduce reliance on food banks. According to the same Fair for You impact report, among those who felt more able to heat their homes, 69% attributed this to Food Club, including 31% who attributed this entirely. Nearly 18% of customers who previously relied on food banks said they no longer did so, and a further 26% had reduced their use.^{xxvi} Access to affordable credit could lead to wider benefits such as reduced financial worries, improved in-work participation and enhanced education outcomes, though these effects are harder to quantify. These potential spillovers could lead to increased local spending and stimulate the local economy. These examples illustrate the material and far-reaching social impacts that can result from CDFI lending activity supported by first-loss funding.

3.5 Impact analysis conclusions

The impact analysis demonstrates that the first-loss funding has generated clear and material benefits across the three core areas assessed: investment raising, CDFI lending and customer outcomes. This shows the catalytic role that first-loss funding can play when used as a de-risking layer within CDFIs' existing funding arrangements.

First-loss funding also demonstrates how CDFIs can expand access to affordable credit while maintaining effective risk management. The levels of arrears, defaults and write-offs remained relatively low over the course of the pilot, despite CDFIs reaching customer groups often perceived as higher risk.

The impact analysis also points to wider social and community benefits. By increasing lending capacity, first-loss funding allowed CDFIs to reach more financially-vulnerable customers across a range of underserved groups. Moreover, CDFI lending helped customers access unclaimed benefits, reduce reliance on food banks, better manage essential costs, boost financial confidence and support better mental and physical wellbeing. While some of these broader societal outcomes are difficult to quantify directly, the individual-level benefits

identified through the analysis can reasonably be expected to contribute to wider community-level impacts over time.

Most importantly, these benefits will continue to compound as loans are recycled due to the evergreen nature of the funding, allowing the impact of a relatively modest grant to grow over time.

4. Cost-Benefit Analysis

4.1 Cost-benefit analysis methodology and analytical framework

4.1.1 Research questions

The aim of the cost-benefit analysis (CBA) is to provide objective and evidence-based insights into how additional social value could be created from the first-loss funding. Our CBA was complemented by quantitative and qualitative analyses to cover additional, monetisable benefits and non-quantifiable impacts that we have identified from wider evidence. The following table covers the research questions of the analysis:

Research question

15. What are the impacts on loan recipients (for example, changes in subjective wellbeing, benefit claims, signposting to other services, debt reduction, improved health, less use of illegal lending)? What if CDFI loans are not available to customers?
16. What are the benefits to society as a result of first-loss funding? (for example, reduced illegal lending, housing problems and use of food banks, improved physical and mental health, increased employment and productivity, and improved child outcomes (for example, better nutrition)).

4.1.2 Overall cost-benefit analysis approach

Overall, cost-benefit analysis (CBA) is used to assess the value for money of first-loss funding. CBA values costs and benefits in monetary terms which allows the calculation of the benefit-cost ratios (BCR), a metric that can give a summary indication of value for money. We also incorporate into the CBA sensitivity and scenario analyses, providing insights into the impact of varying assumptions to increase the transparency and robustness of the analysis.

Our CBA framework is based on the programme's logic model (please see Annex I), and it is in line with the HM Treasury Green and Magenta Books. The CBA model was developed through the following steps:

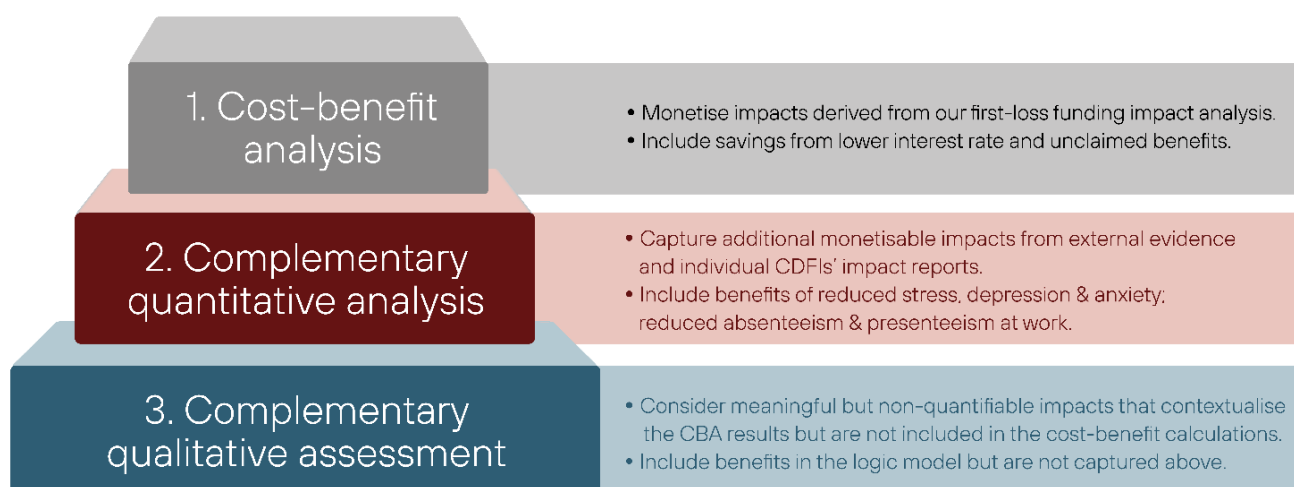
- **Identifying costs and benefits** associated with first-loss funding, in line with the logic model.
- **Monetising costs and benefits** by assessing which aspects can be expressed in monetary terms in the CBA model, using data collected from the three CDFIs' quarterly data returns, triangulated with the findings from the process and impact evaluations and existing evidence, where available and relevant.

- **Comparing costs and benefits** by comparing the costs of first-loss funding with its total benefits and producing net present social value (NPSV) and a BCR.
- **Conducting sensitivity analysis** to account for uncertainties and explore potential variations in key input variables – for example, the magnitude of interest savings – to observe how sensitive the CBA results are to the changes in these variables, helping to increase the transparency and robustness of the CBA results.

4.1.3 Tiered analytical framework

While the CBA is well-suited to answering questions on value for money, it is not sufficient on its own to capture the full range of outcomes associated with first-loss funding. In particular, some impacts are difficult to monetise robustly or to attribute directly to first-loss funding within the evaluation timeframe and data availability. To address the research questions in a proportionate and transparent way, the evaluation adopts a tiered analytical framework. This approach recognises that different types of evidence are required to answer different aspects of the research questions, and that not all impacts can or should be incorporated into a single BCR, particularly where evidence is weaker or not directly obtained from this programme.

Figure 2: Three-tier approach for cost-benefit analysis



The framework consists of conducting a core CBA, supplemented by complementary quantitative and qualitative analyses, to capture the full range of impacts associated with first-loss funding. This approach balances robust, evidence-based quantification with broader contextual analysis, while avoiding overstating or double counting the benefits.

- **Tier 1: Cost-benefit analysis.** Tier 1 represents the core analysis and forms the primary evidence base for the headline assessment of value-for-money. It focuses on benefits that can be robustly quantified using CDFIs' data returns and the impact analysis. As such, it is confined to outcomes for which there is direct evidence and are attributable to first-loss funding, specifically: interest savings when individuals borrow from CDFIs instead of higher-cost lenders, and benefits from access to previously unclaimed

benefits and support identified through benefit checks. These benefits are included in the central CBA.

- **Tier 2: Complementary quantitative analysis.** Tier 2 expands the assessment by capturing additional monetisable benefits that are not directly measurable within the primary dataset and this evaluation design, and these therefore cannot be included in the core CBA. Drawing on existing impact reports, published studies and sector evidence relevant to retail-lending CDFIs and financial wellbeing of individuals, this supplementary quantitative analysis explores broader impacts. These include downstream benefits of improved financial wellbeing, such as reductions in customers' stress, depression and anxiety, as well as potential productivity gains resulting from reduced financial worry at work. While these benefits are supported by existing research, they are presented separately as the findings do not directly stem from the data collection for this programme, to ensure robustness of the core analysis.
- **Tier 3: Complementary qualitative assessment.** Tier 3 provides a qualitative assessment of meaningful but non-quantifiable impacts that help to add context to the CBA findings. These impacts may feature in the Theory of Change but are not captured in Tier 1 or Tier 2 analyses. In some cases, these outcomes could theoretically be monetised (for example, feeling in control of one's daily life). However, they are excluded from the quantitative analysis to avoid double counting with either the core CBA or the supplementary quantitative analysis. Tier 3 therefore highlights the wider benefits of strengthening CDFI lending capacity, offering a more comprehensive understanding of impacts beyond those that can be robustly quantified.

Summary of key findings

- The cost-benefit analysis finds strong value for money for the first-loss funding pilot. Around £2–£3 of monetisable benefit are generated per £1 of first-loss funding when considering individual interest savings, rising to £3–£4 when wider welfare gains are included.
- Including the accelerated deployment of existing capital and loan recycling in the cost-benefit analysis leads to a significant rise in the monetisable benefits to around £14. When paired with the welfare impacts, the value for money further increases to around £18 per £1 of first-loss funding.
- The complementary quantitative and qualitative assessment suggests that the monetised estimates are likely to understate the full social value of the first-loss funding if improved subjective wellbeing, reduced absenteeism and presenteeism and stronger financial resilience were to be monetised.

4.2 Tier 1: Cost-benefit analysis

4.2.1 Cost considerations

Monetisable costs were primarily identified as the £600,000 grant funding provided by the City Bridge Foundation for the three CDFIs under consideration. Some costs identified could not be quantified in this CBA, due to insufficient data to robustly incorporate them. These include the CDFIs' costs of updating the data return template to align with the grant's requirements. However, our sensitivity analysis explored the potential impacts on the results if costs were higher than those included in the core CBA.

4.2.2 Benefit considerations

There are two key steps to monetising benefits:

1. The scale of impact, which is the extent to which the grant has achieved its intended outcomes. It quantifies the number – or proportion of – the pilot's customers whose outcomes or behaviours have improved as a direct result of the programme.
2. Unit benefit analysis, which examines the benefits or cost savings associated with one unit of change in those outcomes.

Monetising benefits was informed by:

- quarterly CDFI data returns from the impact evaluation;
- qualitative evidence taken from interviews conducted as part of the process and impact evaluation;
- existing impact reports conducted by the CDFIs and research on the sector;
- value attributed to benefits in existing literature.

However, not all of these benefits can be monetised. Based on our research, we identified two quantifiable strands of benefits that can be robustly incorporated into the CBA:

1. **Savings from lower interest rates.** These arise when more people are able to borrow from CDFIs rather than relying on higher-cost lenders.

Evidence from Fair for You's 2023 impact report shows that *88% of survey respondents agreed that "Fair for You had reduced their need to use other, more expensive sources of borrowing".^{xxvii}* We judge this finding to be broadly applicable for the purposes of this modelling, although a wider data set would be ideal given the differences in business models between each CDFI.

Among the more costly alternatives are payday loans, pawnbrokers and illegal lenders. Historical data from Fair for You indicates that, prior to accessing its Food Club, 13% of Fair for You's customers had borrowed from payday lenders, 7.2% from pawnbrokers and

2.3% from illegal lenders.^{xxviii} Typical APRs for these sources are high: around 1,250% for payday loans,^{xxix} 80%–200% from pawnbrokers^{xxx} and extremely high (around 130,000% but with limited empirical evidence) for illegal lenders.^{xxxi}

Given less reliable data on illegal lending rates, our CBA restricts the comparison to payday loans and pawnbrokers only. The proportions of these channels are based on the self-reported borrowing patterns of Fair for You's Food Club customers.^{xxxii} Savings are calculated by using the weighted average interest rate of 60% APR offered by the three CDFIs against these alternatives, which is then applied to an average loan amount of £831 over an average loan term of 16 months, derived from the CDFIs' quarterly data return. Although the principal loan amount is relatively small, the high interest rates and repayment structures associated with these alternatives result in significantly higher total repayment costs over time. When comparing the CDFI route with the higher-cost alternatives, the he estimated interest saving per loan is approximately £1,200.

2. **Access to unclaimed benefits.** In addition, CDFIs often provide support services, including benefit and debt advice and other forms of borrower support. These services enable people in need to access benefits and assistance they may otherwise not have claimed.

One CDFI has identified approximately £1.36 million in unclaimed benefits among its customers (or £797 per person) under the programme. Since the three CDFIs offer very different financial products, we do not extrapolate this to the other two CDFIs.

This benefit channel is an economic transfer, reflecting the need for a counterbalancing increase in public spending required to fund customers receiving higher benefit payouts. Therefore, this benefit channel will only affect the BCR when welfare weights are applied to reflect the distributional impact, according to the HM Treasury Green Book.^{xxxiii}

From a monetisable benefit perspective, additional or accelerated capital deployment and lending capacity at the CDFI level are not treated as benefits in their own right. While first-loss funding may strengthen CDFIs' balance sheets and enable them to accelerate the deployment of additional capital, these effects do not generate direct monetisable benefits unless they result in increased lending to customers. The downstream benefits of increased lending are already captured through the individual-level impact channels. To avoid double counting, no additional monetisable benefits to the CDFIs themselves are included in the analysis.

4.2.3 Benefit-cost ratio estimates

Reflecting the uncertainty around how much this accelerated capital deployment can be attributed directly to first-loss funding, we estimated that the minimum BCR is around 2 to 3 from interest savings to customers alone. This indicates the first-loss funding delivers good

value for money, with benefits at least twice its cost even when accelerated capital deployment is excluded and only one benefit channel (lower interest rates) is considered.

The BCR for first-loss funding is calculated by comparing the total 'cost' of first-loss funding (£600,000) with the monetised benefits experienced by customers accessing CDFI loans. In the lower-bound estimate, we consider only £1.4 million of loans directly attributable to first-loss funding, discarding all additionally leveraged capital and any associated recycling effects. Based on these loans, the total interest cost savings to customers is approximately £1.7 million. This figure is derived using a per-loan interest saving of around £1,200 for an average loan of £831, reflecting the difference between the CDFIs' lower-cost lending and high-cost alternatives.

Customers served by CDFIs typically have limited access to mainstream credit, often as a result of poor credit histories or financial circumstances that do not meet mainstream lenders' affordability and risk criteria. The CDFIs in the evaluation charged an average interest rate of approximately 60% APR. In the absence of CDFI lending, customers would be expected to rely on options such as payday loans, pawnbrokers, or even illegal lending. Survey evidence supported this counterfactual, with the majority of Fair for You Food Club customers reporting reduced reliance on more expensive sources of borrowing.^{xxxiv}

In addition to interest savings, the analysis also considers welfare impacts arising from CDFIs' benefit checkers, which help some customers identify and access welfare benefits they were previously eligible for but were not claiming. For example, Fair Finance identified £265,100 of unclaimed benefits among its customers. In line with the HMT Green Book guidance, these benefits are treated as transfers.^{xxxv} Applying a welfare weight,⁶ the estimated BCR in the conservative lower-bound scenario increases to around 3 to 4.

4.2.4 Sensitivity analysis and treatment of additional or accelerated capital deployment

The accelerated deployment of additional capital from existing investors and facilities was a core part of the programme's delivery model, as first-loss funding strengthened CDFIs' ability to lend by building their capacity. A conservative approach was taken for the core CBA to exclude accelerated capital deployment. This is because the first-loss funding grant did not occur in a vacuum and not all additional capital can be solely attributed to the grant. However, the CDFIs have reported that first-loss funding helped to accelerate or increase the deployment of capital from existing investors.

For the sensitivity analysis, we illustratively consider a larger assumed scale of lending attributable to first-loss funding. While the "cost" is still the £600,000 first-loss funding, we used the full loan book of approximately £7 million to derive the monetisable benefits and estimated interest savings at approximately £8.7 million, resulting in a higher BCR of around 14.

⁶ The welfare weight applied is 2.6, which was derived from a 1.3 elasticity of marginal utility of 1.3 and adjusted for the differences in household income before housing costs between the median and lowest income group.

When welfare impacts are also included and welfare weights apply, the BCR increases further to around 18.

4.3 Tier 2: Complementary quantitative analysis

To add richness to the analysis, we considered additional impact channels that are not directly quantified in our impact evaluation and therefore not included in the core BCR calculation. These impacts are drawn from existing evidence from the literature and CDFI impact reports, providing insight into potential additional benefits and understanding of the broader value of first-loss funding.

The main complementary quantitative impacts identified are:

1. **Improved subjective wellbeing:** Evidence from a Fair for You impact report shows that 23%-27% of customers reported reduction in stress, depression or anxiety after accessing CDFI loans.^{xxxvi} Monetisation is based on and updated from the Housing Associations' Charitable Trust (HACT) Social Value Bank (2014), with a per-person wellbeing value of about £48,432 for reduced stress, depression and anxiety.^{xxxvii} Applying the scale of impact to the number of customers under first-loss funding, **the total monetisable benefit is estimated at £5.1 million.**
2. **Improved productivity due to reduced financial stress:** This includes avoided economic loss from absenteeism and reduced presenteeism among employed customers.⁷ A CEBR report finds that 12% of employees take an average of 4.7 days off due to financial worries, with knock-on effects on colleagues' productivity, estimated at 28% of the absent employees' economic loss.^{xxxviii}

The economic loss due to absenteeism is valued at £919 per employee per year, calculated using the average mean pay of £27,495 at the 20th percentile of the Annual Survey of Hours and Earnings,^{xxxix} which better reflects the typical CDFI customer profile than the overall mean pay of the economy.

Loss due to presenteeism is valued at £1,654 per employee per year, which is consistent with the 1.8 times the cost of absenteeism derived from the CEBR report.^{xl} This multiplier accounts for the higher overall costs for employers from reduced productivity while employees are at work, compared with absenteeism alone.

To estimate the number of employees impacted, we used a proxy from the Fair for You impact report, which found 24% of customers reported increased financial comfort.^{xli} While this is not a direct measure of reduced financial worries and is not drawn from the evaluation itself, it provides a reasonable indication of scale. Finally, monetisable benefits

⁷ Absenteeism is the habitual failing to report for scheduled work without good reasons and is considered a breach of an implicit contract between employee and employer in economic / quasi-economic terms.

have been adjusted using HACT guidance on deadweight – the proportion of outcomes that would have occurred in the absence of the CDFI lending. Applying these adjustments, the monetisable benefits are:

- **Reduced absenteeism: £155,400**
- **Reduced presenteeism: £279,700**

It is important to note that the complementary quantitative analysis on outcomes is based on existing literature, rather than direct observation from this evaluation. The numerical estimates are for illustration purposes only and should therefore be interpreted cautiously. They are not a definitive measure of the impact.

Under the sensitivity analysis which includes all additional or accelerated capital and the associated recycling effects, we estimate the monetisable benefits of improved subjective wellbeing and productivity resulting from reduced financial stress as follows:

- **Improved subjective wellbeing:** approximately £25.8 million
- **Reduced absenteeism:** £781,900
- **Reduced presenteeism:** £1.41 million

4.4 Tier 3: Complementary qualitative analysis

Tier 3 analysis is intended to capture first-loss funding impacts that cannot be reliably quantified or would double-count benefits already captured in Tier 2. These impacts highlight the broader value of CDFI lending made possible by first-loss funding, particularly in terms of customer experience, household stability and community outcomes.

1. **Financial resilience and autonomy:** From the customer interviews and focus groups, customers reported feeling more in control of their daily lives and better able to manage their household budgets and debt. Access to affordable credit reduces reliance on high-cost or informal credit which, in turn, reduces financial stress and dependency. Customers described avoiding trade-offs such as skipping bill payments, cutting back on essential food, postponing household repairs, or borrowing from family and friends. Informal lending was often reported as unreliable and embarrassing, whereas customer feedback on this pilot said that access to CDFI loans provides a more secure and sustainable alternative.

These improvements in financial resilience also have secondary benefits, including enhanced work participation, improved education outcomes and a reduced likelihood of turning to illegal or exploitative lenders.

While there is a potential monetary value for “feeling in control” (around £16,427 per person, uprated from HACT Social Value Bank),^{xlii} we do not include this in Tier 2 to avoid

double-counting with reduced stress, depression and anxiety, as both derived their monetary value through improvements in subjective wellbeing.

2. **Health and wellbeing improvements:** Access to affordable credit allows customers to purchase essential goods and services that directly improve their physical health and quality of life. For example, customers reported being able to buy better quality food, contributing to improved physical health. Loans allowed households to heat their homes during winter, reducing health risks associated with cold environments. Customers were also able to replace essential items such as washing machines and mattresses, which can have positive effects on daily functioning and physical wellbeing. Improvements in households' financial security benefit children, for example through better nutrition, school readiness and overall wellbeing.
3. **Community and social impacts.** By supporting financially-vulnerable households, first-loss funding has the potential to reduce the reliance on informal lending. Examples include reduced borrowing from friends and relatives, and therefore customers feel less burdened by financial obligations and tension within household and social relationships. This complements the broader impacts on wellbeing, household stability and community cohesion. Moreover, first-loss funding is reaching and supporting those who struggle to access affordable credit and are financially vulnerable, with a higher proportion of customers being female, lone parents, having low incomes, living in social housing, living with a disability, or being benefit recipients compared with London or the national population.

4.5 Cost-benefit analysis conclusions

Overall, the analysis indicates that first-loss funding delivers strong value for money under a range of different assumptions.

Under a conservative analysis, which excludes all additional or accelerated capital and associated recycling effects, the estimated BCR is around 2 to 3, reflecting monetisable benefits to customers approximately 2-3 times the cost of the grant. These benefits arise from interest savings on CDFI loans. When welfare gains are also considered, the BCR rises to between 3 and 4.

When the impacts of the deployment of accelerated or additional capital are considered as part of the CBA, the pilot is found to deliver especially strong value for money. Under this scenario, the estimated BCR is approximately 14, or 18 when welfare gains are included.

These core numbers do not account for wider societal benefits, including improved subjective wellbeing and productivity gains through reduced absenteeism and presenteeism. Taken together, these results demonstrate that first-loss funding generates substantial value both for individual customers and for society as a whole.

5. Overall conclusions

The early but encouraging signs of this pilot show that expanding first-loss funding to personal-lending CDFIs – and establishing it as a long-term mechanism – could provide the market confidence needed to attract private capital, creating a more inclusive financial system. However, this is dependent on the right supportive policy environment.

The evaluation found that the City Bridge Foundation first-loss funding pilot was well-designed and successful in showing that first-loss funding can boost CDFI lending, accelerate the deployment of capital, and improve access to affordable credit for underserved households. By Q3 2025, the £600,000 grant enabled the three CDFIs to issue almost £7 million in loans to more than 8,300 customers and leverage nearly £2.4 million in additional or accelerated capital from existing investors and facilities.

The pilot also demonstrated considerable value for money. Even under conservative assumptions that excluded the accelerated deployment of existing capital and its associated recycling effect, the estimated benefit-cost ratio was still 2-3, rising to 3-4 when welfare gains are included. When this accelerated capital deployment and recycling effects are included, the estimated BCR is much stronger at around 14, or around 18 with welfare gains also captured.

Importantly, the wider benefits of the pilot – including scale effects, market confidence and wider system support for CDFIs – were likely to have been understated in the modelling, as they accrue more fully over a longer-term horizon. To maximise the impact, a larger grant programme, combined with complementary support from banks or social investors, could expand the funding base for CDFIs, reduce the costs of raising capital and further increase their lending capacity. Yet, many prospective investors remain hesitant to participate, limiting access to affordable credit for those households who need it most. These concerns could be overcome through targeted policy measures and enabling an investment environment that increases investor confidence and supports blended finance approaches. With such measures in place, first-loss funding can play a catalytic role in crowding in private capital and scaling lending capacity.

The customer profile and outcomes presented in this report show that first-loss funding is a model with measurable positive impacts, and one that is ready to be scaled up through the right policy intervention. By building on both the successes and lessons identified in this evaluation, future first-loss funding grant provision has the potential to become a strong long-term tool for expanding affordable credit. This can strengthen financial inclusion and deliver measurable economic and social benefits.

Annex I: Setting out a logic model for first-loss funding

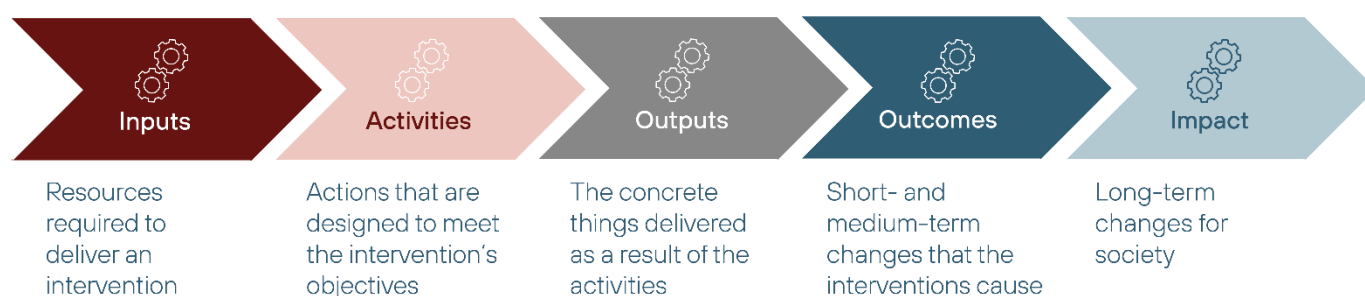
There were three primary expectations for the first-loss funding pilot:

1. To demonstrate that first-loss funding can be an effective tool for scaling CDFIs' operations. A primary goal was to test how much lending could be created over time for every pound of first-loss funding.
2. To boost CDFIs' capacity for lending to low-income households who are currently shut off from conventional lending due to poor or thin credit histories and have limited availability of affordable credit that could address their immediate financial pressures.
3. To demonstrate the importance of the concept of an evergreen fund, where the funds can be recycled repeatedly as loans are repaid, creating a sustainable and long-term impact. While reducing operating costs and loan costs to customers is a long-term aspiration, achieving this during the pilot phase is unlikely given the current scale and funding provided. However, the pilot aims to create a sustainable impact by enabling CDFIs to recycle funds and potentially reduce costs in the long term.

Ultimately, the pilot – and its success – depended on demonstrating how first-loss funding is a viable mechanism to support the growth and sustainability of CDFIs.

The ways in which these expectations of first-loss funding filter through into effects on CDFIs, people in need and the wider economy and society can be shown in a logic model. As Figure 3 outlines, a logic model visually and conceptually presents the relationships between resources, activities, outputs and impacts in a clear and simple way.

Figure 3: Key components of a logic model

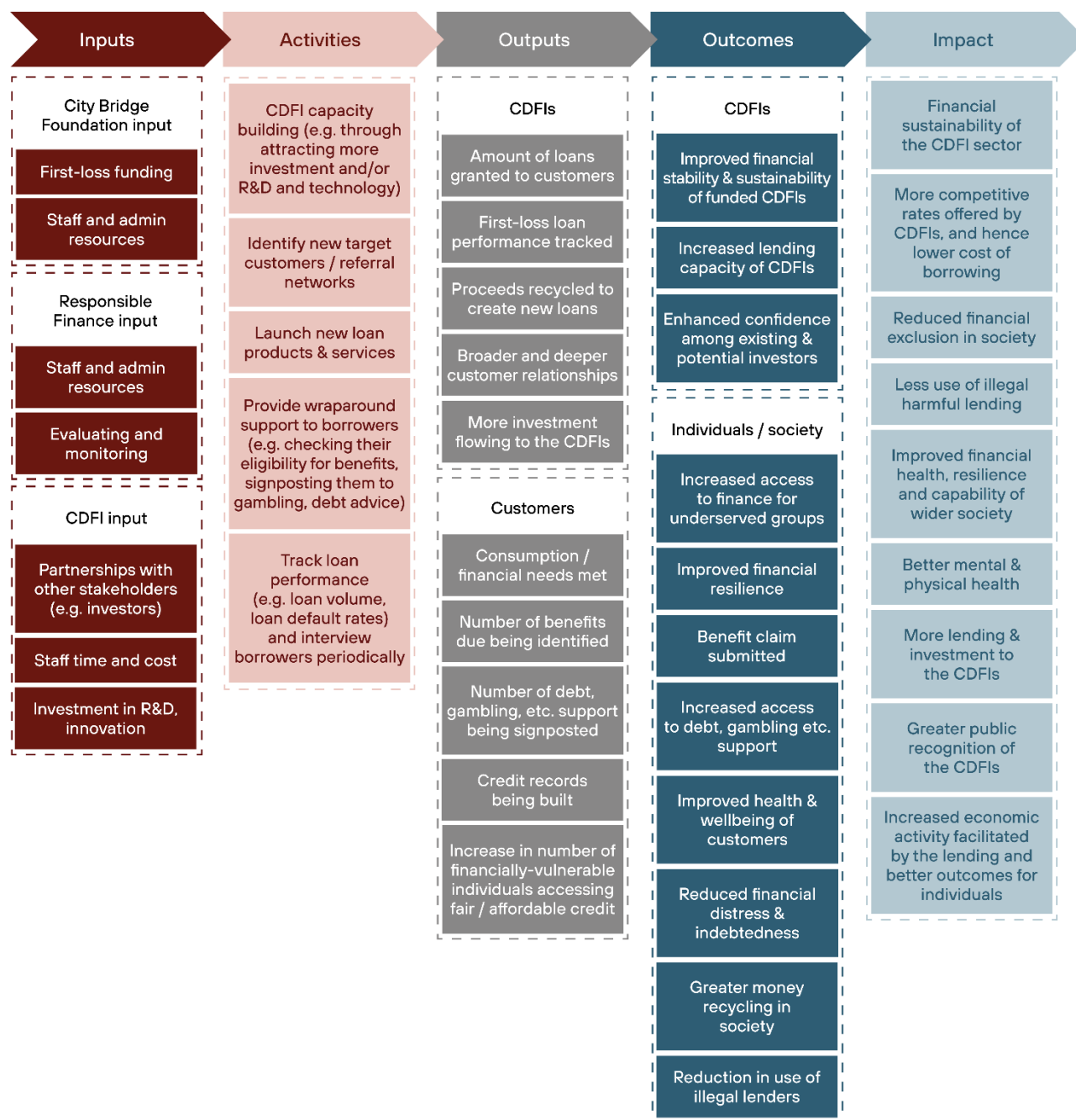


We use a Logic Model because:

- it sets out a clear roadmap to measure the progress and success of a complex set of changes;
- it is useful for policy design and planning to focus on intended impacts and show dependencies, resource needs and risks.

The logic model is helpful to communicate with programme stakeholders, sponsors and project teams, building clarity, consensus and transparency. We worked collaboratively to develop this with key pilot stakeholders. The finalised logic model is presented below in Figure 4.

Figure 4: A logic model for providing first-loss funding to personal-lending CDFIs



Annex II: Glossary of terms

Term	Definition
Annual Percentage Rate (APR)	The yearly interest rate charged on borrowed money, expressed as a percentage of the principal
British Business Bank (BBB)	A Government-owned bank in the UK that supports small and medium-sized businesses by improving access to finance
Benefit-cost ratio (BCR)	A ratio that compares the benefits of a project or programme to its costs
Capital stack	The different layers or hierarchy of debt and equity financing a company can use to finance a transaction or project. It is usually ordered by who gets paid first (e.g., senior debt) and who takes the most risk (e.g., common equity).
Cost-benefit analysis (CBA)	A method for evaluating the total costs versus the benefits of a project or a programme
Community Investment Tax Relief (CITR)	A UK tax incentive designed to encourage investment in disadvantaged communities
Community Reinvestment Act	A US law that encourages banks to help meet the credit needs of all communities, including low- and moderate-income neighbourhoods
Crowding in	An economic phenomenon where increased government spending or charitable grant funding stimulates private sector investment rather than displacing it
Downside risk	The potential for an investment or a financial activity to decrease in value or suffer a loss
Evergreen grant	A grant funding arrangement designed to be continuously replenished or renewed, allowing ongoing support without a fixed end date, typically to sustain long-term initiatives or flexible cash flow needs
First loss	The portion of an investment or loan that absorbs initial losses before other investors are affected
Food Club	A prepaid card product offered by Fair for You, where borrowers receive funds in the form of a prepaid card to use for purchasing food
Forbearance	Temporary adjustments to loan repayment terms to support borrowers experiencing financial difficulty
High-cost Short-term Credit (HCSTC)	Loans with high interest rates and fees, typically due for repayment within a short period, such as payday loans

Impact analysis	The assessment of the social, economic, and/or environmental impacts of a project, policy or programme
Junior capital	Investment capital that is lower in priority for repayment in case of financial distress
Logic model	A visual representation that links programme resources, activities, outputs and outcomes to show how change is expected to occur
Net Present Social Value (NPSV)	A measure of the social value generated by a project or a programme, discounted to present-day terms
Payday loans	Short-term, high-interest loans typically due on the borrower's next payday
Process evaluation	An assessment that examines how a project or programme is implemented, focusing on procedures, operations and delivery
Retained earnings	Cumulative net income a company retains, rather than paying them out as dividends to shareholders
Senior lender	Creditors that provide loans with the highest priority for repayment
Senior capital	Investment capital with a higher claim on repayment than junior capital
Tail risk	The chance of rare but extreme financial losses

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