centre for responsible credit

THE SOCIAL IMPACT OF FAIR FOR YOU

THIRD REPORT

DAMON GIBBONS & BECKY NIXON

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ABOUT THE CENTRE FOR RESPONSIBLE CREDIT

The Centre for Responsible Credit is an independent research and policy unit hosted by Learning and Work Institute. Established in 2010, we have a remit to monitor the development of credit markets; research models of responsible provision, and to promote policy responses which protect the long term interests of households.

We strive to challenge the economic orthodoxy that has led to Britain's current personal debt crisis and provide high quality research to support effective policy and service delivery.

Our work has a high impact, and is often cited in Parliament and the national media. Examples include our research into the regulation of high cost and predatory lending in the UK, which led to a cap on the total cost of credit that can be charged by payday lenders.

Our current work programme is grouped around three themes:

- Improving Credit Regulation;
- Getting Britain out of Debt; and
- Supporting Financially Healthy Lives.

Further details can be found on our website at www.responsible-credit.org.uk

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Finally, we are particularly grateful to those Fair for You customers who participated in both the telephone interviews and in six month follow up survey, who have been very frank and open in sharing their experiences, and to our Associate, Ann Gilbert, who conducted a number of those interviews with them.

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FOREWORD FROM TOM LEVITT
CHAIR, FAIR FOR YOU

Households seeking ways out of poverty need affordable credit designed to meet modern borrowing needs, which is delivered with dignity, compassion and respect. That's the conclusion we reach after a year of trading of Fair for You Enterprise CIC, the social enterprise owned by our charity, built to do good.

High cost credit is extremely damaging to households and the communities they live in. With an estimated 12 million people now unable to access mainstream credit there urgently needs to be a co-ordinated national response, and we are calling on the Office of Civil Society to support the work of Fair for You Enterprise CIC through its 'inclusive economy' function.

Our values centre on improving customer well-being, and our first year has shown that a different way of lending to these households is possible. Fair for You's subsidiary lending organisation innovates in personal credit, with the intention to scale and become mainstream within 5 years. I believe that this can happen: not only can there be a new, trusted brand providing credit but millions of pounds would be kept circulating in the poorest communities, in the households struggling the most.

Our customers are UK-wide. They know that Fair for You is striving for change, giving voice to their anger and resentment at being constantly 'ripped off '. They back our call and share their experiences with us openly and frankly. They also know, as this report confirms, that Fair for You makes a real difference to their quality of life.

As Chair of the Charity, I'm pleased that alongside the lending undertaken by Fair for You Enterprise CIC, we are also identifying ways to tackle other aspects of the high cost credit problem. As this report illustrates there are structural problems with credit reporting and the treatment of high cost rent to own debts for people in financial difficulty which materially affect not only our business but the affordable lending sector as a whole. We are therefore calling on the Financial Conduct Authority and Money Advice Service to take action to address these.

Finally, I'd also like to thank the Centre for Responsible Credit for its work over the past fifteen months in providing such a robust assessment of social impacts of our lending. The work has not only confirmed the importance of the work we are doing, but has also cast a real light on the huge social costs that are caused by high cost credit lending. Although this project has now come to an end, we will continue to seeking funding for further research to enable us to scope and develop a wider range of solutions to meet the credit needs of low income households.

We have the expertise, skill, and passion required to make a real difference. Whilst there is clearly much more work to do I am proud that Fair for You is at the front of the fight against high cost credit in the UK.

EXECUTIVE SUMMARY

This report marks the culmination of a fifteen month long project to assess the social impact of lending by Fair for You Enterprise ('FFYE') Community Interest Company. FFYE is the lending subsidiary of Fair for You Lmited: a charity with the objective of changing the way that credit is provided to low income households.

KEY FINDINGS

- FFYE is clearly focused on its target market of low income families, many of whom contain someone who has a long term health condition or disability. A high proportion of these households have clearly been using high cost credit in the past and many have had bad experiences of this;
- The loan product and service put in place by FFYE meets the needs of low income households to purchase household items at affordable prices. Customers have extremely high levels of satisfaction both with FFYE overall and with specific features of the loan product, which provides considerable payment flexibility. They also recognise that the ethos of FFYE is different to commercial high cost credit lenders, and value this;
- The savings for customers using FFYE instead of rent to own stores and door to door moneylenders are huge. On average customers using FFYE instead of rent to own are saving £527 per item. Over the course of the year, FFYE has potentially saved its 3,068 customers over £2 million compared to the cost they would have paid if using rent to own stores, and £750,000 compared to the cost of using door to door moneylenders;
- FFYE's initial loan product is not a perfect substitute for all forms of high cost credit. It is most suitable as an alternative to high cost rent to own agreements, and, following the recent expansion in FFYE's product range it is now also competing with door to door moneylending. However, there is a need to develop new products and services which provide alternatives for other types of high cost credit, notably sub-prime credit cards and high cost 'payday' instalment loans;
- Many of FFYE's customers are also able to make financial savings because they now have access to efficient appliances which they would otherwise have had to live without. These reduce the cost of running the household, which is vital to people on low incomes in the current economic climate;

- The combination of affordable credit and the budgeting support that FFYE provides has significantly improved its customers' ability to manage their money. Two-thirds of its customers report that this is the case, and around one quarter of all customers are now able to put money aside as savings on a regular basis;
- There are also a number of clear non-financial outcomes for clients. These have been sustained over a period of at least six months, and are likely to last for much longer:
  - Half of FFYE's customers report that they are less anxious, stressed or depressed as a result of using their service;
  - 45 percent have seen an improvement in their physical health, either because the item they have obtained by using FFYE has had a direct impact on this; because they are eating better; or because their physical health has improved alongside their mental health;
  - One third of FFYE's customers report that their children's health and well-being has improved. We estimate that FFYE has had a positive impact on the levels of stress experienced by about 2,500 children over the course of past year. Around 1,300 children are eating better as a result of FFYE, and about 600 children are sleeping better.

These are considerable achievements and FFYE has clearly had a positive social impact. Even though we have been very cautious when estimating its social value, we conclude that it has provided a significant return on investment in its first year of operation, with every £1 spent returning £4.56. We expect this figure to rise further in future years as repayments are recycled into more loans. In our view, there is now a solid case for increased social investment in FFYE to further increase the scale of its operations moving forwards.

ACTION IS NEEDED TO ADDRESS THE BARRIERS INHIBITING THE EXPANSION OF FFYE AND OTHER AFFORDABLE CREDIT PROVIDERS

Despite the successes of FFYE over the past year, far too many low income households in the UK are still unable to access credit at an affordable cost and the commercial credit sector has proved incapable of meeting their needs for products which provide them with the payment flexibility they need, and which treat them with the dignity and respect they deserve. The failure of the UK to provide a scaled-up alternative to high cost credit lenders gives rise to huge social costs in the form of missed bill payments; lack of savings and resilience to income and expenditure shocks; mental and physical health problems arising from anxiety, stress and depression and poor diets; and negative impacts on child welfare.

As well as the need to significantly increase the level of investment in FFYE and other affordable credit providers, action is needed to address a number of structural barriers. These barriers not only affect FFYE but have a wider impact for the affordable credit sector, including credit unions, as a whole.

PROBLEMS WITH CREDIT REPORTING

FFYE has uncovered major problems with the way that high cost lenders report people's credit history to credit reference agencies. These include errors in the number of accounts that are outstanding and errors concerning whether or not repayments are being made. These errors are causing more people to be turned down for affordable credit than would otherwise be the case and in some cases are trapping people in high cost credit use. Action is now urgently needed by the Financial Conduct Authority which should investigate the scale of errors in the credit reporting system, and also ensure that door to door moneylenders and payday lenders are reporting accurate information concerning repayments on at least a weekly basis. The Financial Conduct Authority and Money Advice Service should also consider how the information that is provided to people with low credit scores can be improved and how they can be encouraged and supported to challenge errors on their files..

MORE HELP IS NEEDED FOR 'HIGH RISK' GROUPS TO ACCESS AFFORDABLE CREDIT

Younger households often have 'thin' credit files and there is insufficient information for FFYE to make a positive lending decision. Whilst some technological innovations could positively impact on this moving forwards (for example by utilising alternative information to more accurately predict risk), there has been little engagement between Fin Tech companies, existing credit reference agencies, and the affordable credit sector to bring this about. New partnerships between these stakeholders need to be developed and encouraged by Government and the Financial Conduct Authority in order to pilot innovative approaches to credit scoring within the affordable credit sector.

Other solutions may be easier to implement in the short-term. Social investors should consider providing additional support to FFYE to enable it to pilot an offering of loans to younger households who would otherwise be refused a loan on the basis of a 'thin' credit file. This could be done by providing a 'guarantee' or 'hardship' fund which FFYE could draw down in the event of default, and would allow FFYE to test out lending to these households; evaluate the actual risk involved, and assess the social impacts of providing younger households with access to affordable credit. FFYE could also consider developing a purely rental offer for some other groups of higher risk households who cannot satisfy its lending criteria at the moment.

DEBT MANAGEMENT PLANS TRAP SOME PEOPLE IN HIGH COST CREDIT USE

Finally, there is a need for the Financial Conduct Authority, Money Advice Service and debt advice agencies to consider how best to meet the needs of people who are on debt management plans to maintain access to essential items for the home. Debt management plans are a valuable source of help for people in financial difficulties as they often result in interest being frozen; enable households to cover their 'priority commitments' and basic living expenses, and distribute any surplus income amongst their creditors. However, payments to rent to own firms and other providers of Hire Purchase are often protected within debt management plans because these lenders have the right to repossess goods if payments are not maintained. Payments to FFYE are not protected in this way because it provides the customer with ownership of their items from day one. The unintended effect of debt management plans is therefore to remove future access for people to FFYE and to trap people in high cost credit use, which runs counter to the long term interests of households.

A new approach is needed which seeks to transition debtor households in debt management plans away from the use of rent to own firms and towards affordable credit providers. This should recognise that affordable credit providers are entitled to use the Eligible Loan Deduction Scheme put in place by Department for Work and Pensions to mitigate the risks of lending to households in receipt of means tested benefits. We therefore recommend that the Money Advice Service convene a working group comprising representatives from the Financial Conduct Authority, Department for Work and Pensions, debt advice agencies, the hire purchase sector, and FFYE and other affordable credit providers, to develop improved arrangements.

THE FAIR FOR YOU DIFFERENCE

No shareholders, and not for profit – Fair for You is a UK-registered charity with a social mission to provide fair credit options to low income households. The charity wholly owns the lending subsidiary, which as a community interest company has the strongest possible asset-lock and mission lock. It can't be bought out, and it doesn't have any shareholders to pay.

High street prices – Fair for You is committed to keeping the prices of goods available from its online high street in line with those of mainstream retailers, and it contracts with its suppliers to ensure prices are fair.

No costly insurance or unnecessary warranties – Fair for You does not allow the sale of insurance or warranties on products at the point of sale by its suppliers. All items in the 'online high street' carry a minimum of one years' full warranty.

Transparency and low cost – Fair for You has two income streams: it receives commission from the suppliers on its 'online high street', as well as on the interest it charges its customers for the loan. It uses the savings it makes from commission to keep the total cost its customers pay as low as possible. Typical cost savings are around £500 per item; the weekly repayments are low, and the agreements are much shorter in duration than with rent to own firms. Unlike rent to own, the customer owns the item from day one.

No unnecessary or punitive fees – the customer is not charged any set-up or early or missed payment fees. Similarly, the cost of delivery and removal of an old item is included in the price that the customer sees.

Flexible repayment options – Customers can choose the length of time of repayment from 12 weeks to two years, with repayment frequency on a weekly, fortnightly, monthly or four-weekly basis to suit the customer's own income stream. They can over-pay, which reduces the total interest they pay, and can arrange payment holidays.

ABOUT THE RESEARCH

This study has been conducted by Damon Gibbons, Director of the Centre for Responsible Credit and Becky Nixon, Director of Ideas to Impact. It involved a detailed analysis of over 1,200 responses to a customer survey; analysis of a follow up survey sent to 530 customers who have had their loans for six months or more; and in-depth phone interviews with 20 of the respondents to the follow up survey. We have also reviewed a large amount of information concerning the first year operations of FFYE, including anonymised credit reports for customers.

1. INTRODUCTION

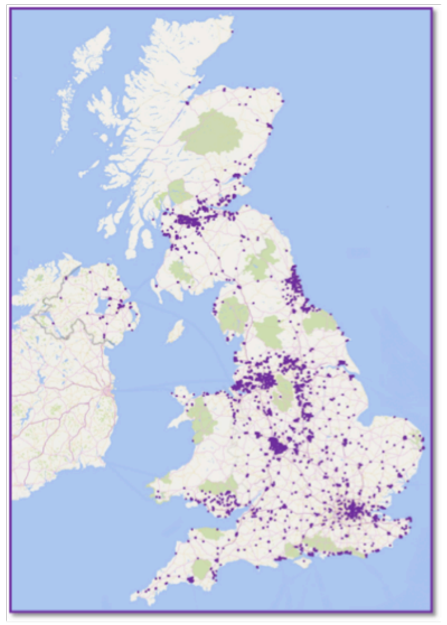
1.1 This report marks the culmination of a fifteen month long project to assess the social impact of the lending and services being provided by Fair for You Enterprise ('FFYE').

1.2 FFYE is a community interest company which has been established as a not for profit lending subsidiary of Fair for You Ltd, a registered charity. The charity has as its aims: the advancement of education in relation to money and debt management, and the relief of financial hardship and distress through the advancement, provision and facilitation of affordable sources of credit.

1.3 FFYE began lending in December 2015, following its full authorisation by the Financial Conduct Authority. It has the ambition of changing the way that lending is conducted for lower income households: providing them with flexible and affordable loans that meet their borrowing needs, and treating the customer with respect.

1.4 This ambition is reflected in FFYE's initial loan product and service, which is designed to provide low income households with a means of obtaining household items at reasonable cost. FFYE provides an 'on line high street' where customers can select the items that they require, and then provides an unsecured loan at credit union rates of interest to purchase the item.

1.5 Unlike most credit unions, FFYE is not restricted to lending in specific local areas but can, and does, make loans available to households throughout the UK, although its customers (see map opposite) are often concentrated in areas with high levels of child poverty.



1.6 By raising capital directly for lending and without needing to attract small sum depositors; by utilising modern digital technology, and by providing a consistent UK-wide offer marketed through social media, it is also capable of being rapidly scaled-up. In our view it is therefore a much better vehicle through which to deliver a national challenge to high cost lenders than the credit union movement.

1.7 As well as being affordable, the loan product and service that FFYE provides has been designed to meet customer need in a number of other important respects:

- There are no hidden costs or unnecessary 'extras'. Delivery of items is included in the price and there are no fees for late payment;
- The customer controls the duration of the loan and the repayment arrangements. Customers can repay over any period from between 12 and 104 weeks, and can make repayments weekly, fortnightly, monthly, or four weekly to suit their personal budgeting requirements;
- The loan duration and repayment arrangements are flexible and can be changed at any time in order to accommodate changes of circumstance;
- Customers are provided with a loan calculator which shows them that if they pay off the loan sooner they will pay less interest and over-payments are encouraged;
- FFYE takes a responsible approach to lending. If it considers people will struggle to afford the item for which they have applied then it will suggest a lower cost item and loan that is appropriate for them;
- FFYE requires that customers have repaid a large proportion of any previous loan, and are up to date with repayments, before it will consider them for any further credit. Customers are incentivised to maintain payments, as doing so makes them eligible to join the 'Good Payers Club' through which they can access a wider range of items;
- FFYE maintains regular contact with its customers: providing monthly updates, text messages advising about payments and outstanding balances, regular paper statements and informative newsletters to help people budget effectively.

1.8 The main target customer base for FFYE are low income families with children. Many of these have previously had little option but to use very high cost commercial lenders such as rent-to-own stores, door to door moneylenders, sub-prime credit cards and payday loan firms. As this report proceeds to detail, the loan product offered by FFYE provides much better value than these types of lending, and there are considerable savings to be made for households which stop using high cost credit lenders and move to FFYE instead.

1.9 However, it is not only the financial savings for households which are important. As we have reported on several occasions [1], high cost credit use can be extremely damaging to low income households as the burden of repaying these debts often requires them to cut back on other areas of expenditure, including food and heating. This can have long-term negative implications for health.

[1] See, for example, Gibbons, D., Vaid, L., & Gardiner, L. (2011). 'Can Consumer Credit be Affordable to Households on Low Income'. Centre for Responsible Credit

1.10 Alternatively, rather than cut back on spending some households fall into arrears on other household bills, including rent and Council Tax, or take on further borrowing. This over-indebtedness can contribute to mental health problems, and affects family relationships as well as the ability of people to hold down employment or, if they are already out of work, undertake effective job seeking activities [2]. The impacts of over-indebtedness therefore go beyond the individual households concerned and give rise to social costs – such as lower Council Tax collection rates and increased demand on mental health services.

1.11 High cost credit also forms an important part of a wider 'poverty premium', whereby people on lower incomes pay more for essential goods and services than those further up the income distribution. The average additional cost of living on a low income has recently been estimated by the Personal Finance Research Centre at the University of Bristol at between £350 and £750 per year [3]. The high cost of credit that some low income households use is recognised as an important component within this, and the authors note that:

> "There is…an unmet need for low cost micro loans…and a role for social investors, financial institutions, charities and Government to work together to develop a larger-scale offer of affordable credit alternatives."

1.12 Further to this, in the absence of savings and without access to affordable credit options, the poverty premium and financial pressures that low income households face can force many to 'go without' items which most of us would take for granted [4]. These include efficient cookers, fridges, freezers and other white goods which ultimately help to reduce the running costs of a household, as well as beds and other items which provide a reasonable level of comfort for ourselves and our children. Going without these items can create considerable anxiety, stress and depression and adversely impact on child welfare [5].

1.13 In an era when child poverty is increasing [6], the provision of affordable credit to enable lower income families to achieve a reasonable standard of living has never been more important.

[2] Gibbons, D. (2010). 'Out of Work and Out of Money: A study of financial exclusion and worklessness in Manchester'. Manchester City Council

[3] Davies, S., Finney, A., & Hartfree, Y. (2016). 'The Poverty Premium'. Personal Finance Research Centre, University of Bristol.

[4] See footnote 1.

[5] 'The Debt Trap: Exposing the Impact of Problem Debt on Children'. (2014). StepChange Debt Charity & The Children's Society

[6] Child Poverty is forecast to rise by 50% over the course of the current Parliament. See https://www.theguardian.com/society/2016/oct/12/child-poverty-rise-50-percent-theresa-may

ABOUT THIS PROJECT

1.14 This is our third report to examine the social impact of lending undertaken by FFYE, and is the culmination of a fifteen month long project. This section now provides a summary of the process followed over this time, and summarises the main findings from the first two reports. We then provide details of the methodology underpinning the research for this third report and provide a guide to how the findings are presented in subsequent chapters.

THE FIRST REPORT (MARCH 2016)

1.15 In March 2016, we reported the findings from an initial survey of FFYE's first cohort of customers and provided case studies from a small number of in-depth qualitative interviews with these. The customer survey indicated that FFYE was clearly reaching its target market – the vast majority of its customers are female, with dependent children, and with incomes in the lowest income quartile. Credit reference information obtained by FFYE during the assessment of loan applications also indicated that many had a history of using high cost credit.

1.16 In addition, many customer households contained someone with a long-term health condition or disability. The qualitative interviews we conducted indicated that the items these households obtained by using FFYE often had a direct positive impact on their ability to cope with these. For example, a customer with a severely autistic son told us how desperately she needed to replace her broken washing machine in order to care for him effectively.

1.17 The qualitative interviews also indicated that customers were primarily turning to FFYE when existing essential appliances had either completely stopped working or were on the brink of doing so. Customers told us that they were incurring higher costs by having dilapidated or broken appliances, for example, because they could not feed themselves and their families cheaply, store or cook food effectively, or had to use launderettes.

1.18 However, the cost savings associated with the installation of new cookers, fridge freezers, and washing machines were not the only positive impact of using FFYE. For many customers, there was also a 'pride' in being able to cook 'proper' meals for their families; a sense of re-found independence instead of having to rely on friends or family, and the sense of achievement that comes from attaining what was perceived as a 'normal' living standard.

1.19 For many customers, having to go without, or fearing that they may have to go without essential appliances also added to their general anxiety caused by the struggle of living on a low income. Customers also expressed to us in very clear terms that they were fearful of having to use rent to own firms because of their previous bad experiences of these, and the knowledge that they were extremely expensive. In contrast, and almost without exception, customers told us that FFYE was 'easy to use' and 'friendly' and that this included when they had occasional payment problems.

1.20 As a consequence of their positive experience of using FFYE some customers told us that they would also like to see the product range offered by FFYE expanded to include other household items such as beds, furniture, children's prams and buggies and electrical items. An expanded offering has subsequently been achieved by FFYE, which now offers access to over fifteen different types of products through its 'on-line high street'.

THE SECOND REPORT (SEPTEMBER 2016)

1.21 As a result of the initial findings we worked with FFYE to tweak its customer survey to gather better information concerning the outcomes of its lending and in September 2016 we published a second report, which was based on an analysis of 523 responses to the survey, which constituted around one-third of FFYE's customer base at that time. The second report also contained the findings from an increased number (44) of qualitative interviews with customers.

1.22 The findings from the second report clearly demonstrated that FFYE had remained focused on its target market and was making a real difference to their lives:

- ☑ FFYE's typical customer is a lone parent aged between 24 and 35 years of age, working in low paid - and often part-time - employment, and living in rented - often social - housing. However, many customers are people who are entirely reliant on benefits due to long term limiting health conditions or disabilities, or who are caring for someone else with health problems. Around half of FFYE's customers had previously used door to door moneylenders; 45 percent had used rent to own stores, and over 35 percent had used payday lenders.
- ☑ Buying household items through FFYE is considerably cheaper than using high cost commercial credit firms. For example, our assessment at the time indicated that customers using FFYE were typically saving around £500 per item compared to the cost of using rent to own stores;
- ☑ The financial savings that customers reported as a result of using FFYE rather than commercial high cost credit companies were identified by around half of all customers as making it much easier to cope with the day to day costs of running the household.

Over one third (38%) reported that using Fair for You had significantly helped them to manage their money better, and in some cases to build up regular savings; and over a quarter (28%) of customers reported that they were now a lot better able to pay their rent, mortgage, or other household bills;

- In addition to these direct financial impacts, a third of customers reported that levels of stress, anxiety and depression had reduced a lot, and over a quarter were much better able to eat healthily, cope with their physical health conditions or disabilities, or reported improvements in their child's well-being. Around one fifth of customers reported that using FFYE had also helped to improve relationships within their family.

1.23 Whilst the second report highlighted the very positive outcomes that FFYE was delivering for many of its customers, it also highlighted a number of significant challenges in lending to low income households, and which were holding back the expansion of FFYE. Specifically:

- FFYE is being hampered in its ability to offer people who have previously used high cost credit a 'second chance' due to the misreporting of credit information by other lenders, which often made it appear that customers were more highly indebted than was actually the case;
- The FFYE loan product is not a direct substitute for all high cost credit, such as cash loans provided by door to door and payday lenders. A high proportion of FFYE customers have used these sources of credit in the past and some are continuing to do so. Traditional, monthly, credit reporting by high cost lenders are inadequate to allow FFYE to identify applicants that have recently taken out high cost credit before approaching them for a loan and who therefore pose a higher risk of default;
- Some applicants for FFYE loans are too high a risk for it to lend to. Although a loan from FFYE would have beneficial impacts on the overall budget for these applicants, which would likely improve their ability to pay other bills – including rent, utilities, and Council Tax – the level of risk involved would need to be mitigated by these third parties providing some form of guarantee or 'hardship' fund before FFYE could make a loan;
- Many low income households are in serious debt problems and FFYE has a number of customers who have entered into debt management plans for the repayment of their debts via advice agencies. Although financially constrained, these households have an ongoing need to purchase household items whilst subject to making payments through their plans. Debts to rent to own stores are often prioritised for payment by advice agencies because the goods purchased through these can be repossessed if payments are not maintained. In contrast, debts owed to FFYE are not a priority because the customer owns the goods themselves from day one. This leads to a bizarre position whereby people on debt management plans maintain access to credit from highly expensive rent to own stores but not to the much cheaper products provided by FFYE.

METHODOLOGY FOR THE CURRENT REPORT

1.24 For this report we have updated our analysis of the FFYE customer survey with respect to the views of customers about the service they have received and how using FFYE has impacted on their lives. The customer survey now has 1,220 respondents and is completed following receipt of a loan. It therefore provides an indication of the positive impacts that customers expect to experience at that point in time. However, in order to provide a more robust finding concerning actual outcomes we also designed and conducted a follow-up survey with customers who had received a loan at least six months ago. This was sent to 530 customers who had received their first loans between December 2015 and May 2016. We achieved a 37 percent response rate to this survey, which was conducted in February 2017.

1.25 In addition, we also conducted twenty in-depth qualitative phone interviews with customers who completed the follow-up survey. These interviews provided further insight into issues such as how long they expected any positive outcomes to last for, and how far these could be attributed to the loan from FFYE as opposed to other factors in their lives. As a consequence of the information gathered from the follow up survey we have been able to make an initial estimate of the overall Social Return on Investment that has been delivered by FFYE in its first full year of operation.

1.26 We have also reviewed a large amount of additional information made available to us by FFYE. This has included details of:

- The total number of items purchased as a result of its service; the total number of customers; value of loans made, and the cost of those loans compared to high cost commercial lenders.
- The costs of FFYE's operations, and the condition of its loan book; and
- The number of children living in customer households.

1.27 Finally, we have also been provided with further information concerning ongoing problems with credit reporting by high cost lenders and the treatment of debts to rent to own stores and FFYE loans within debt management plans.

STRUCTURE OF THIS REPORT

1.28 The remainder of this report is structured as follows:

- ☑ Chapter two presents our main findings. This begins with an overall assessment of FFYE's first year operations, updates our cost comparison with high cost lenders, and proceeds to present the findings from the updated customer survey, the follow up survey and qualitative interviews concerning the positive outcomes that people report after using FFYE;
- ☑ Chapter three then sets out details of the approach we have used to estimate the Social Return on Investment achieved by FFYE in its first year of operation, and our findings in this respect;
- ☑ Chapter four then returns to the challenges identified in our second report to discuss the barriers which are inhibiting the expansion of FFYE and other affordable credit lenders;
- ☑ Chapter five presents our conclusions and recommendations from the study.

2. MAIN FINDINGS

2.1 This chapter presents our main findings from the study.

2.2 We begin by providing an overview of FFYE's first year operations, including the total number of customers, loans made, and the value of these. We also include a cost comparison exercise illustrating the savings that can be made for customers accessing FFYE rather than using sources of high cost credit. We then set out the key findings from the customer survey, follow-up survey and qualitative interviews.

OVERVIEW OF THE FIRST YEAR'S OPERATIONS

2.3 During its first year of operation FFYE has extended £1.076 million in loans to 3,068 customers. The average lending per customers is therefore £350. However, some customers have taken out more than one loan. In total, 3,787 loans were made during the year. The average individual loan value is therefore £284 and average number of loans received per customer is 1.23. The low number of loans per customer is unsurprising given that these figures relate to just 12 months of FFYE's operations, and these will undoubtedly rise moving forwards.

2.4 It should also be noted that the number of loans made is different to the number of products that FFYE has enabled its customers to access. In total, 4,099 products have been purchased using finance from FFYE. The average number of products per customer is therefore 1.33, and the average number of products per loan is 1.08.

COST COMPARISON

2.5 In our second impact report, we estimated that the typical customer using FFYE instead of a rent to own store would save an average of approximately £500 per item.

2.6 We have now conducted a more detailed analysis, and table 1, below, contains details of each item type which can be obtained through FFYE, and compares the average price that customers pay for these compared to what they would be required to pay if they used rent to own stores.

TABLE 1: ASSESSMENT OF SAVINGS FOR FFYE CUSTOMERS COMPARED TO RENT TO OWN STORES

Item Type	Average Price Paid by FFYE customers	Average Saving when compared to RTO store products	Number of items provided by FFYE	Total potential savings
Baby	£240.06	£225.97	414	£93,551.58
Bed / Mattress	£338.73	£559.32	716	£400,473.12
Bedroom Furniture Set	£256.03	£924.36	75	£69,327.00
Cooker	£405.47	£671.43	497	£333,700.71
Dining Set	£381.31	£1,204.07	64	£77,060.48
Dishwasher	£359.03	£784.88	62	£48,662.56
Fridge / Freezer	£380.35	£572.45	671	£384,113.95
Laptops	£422.16	£635.07	39	£24,767.73
Other Electrical	£225.38	£202.87	96	£19,475.52
Other Furniture	£331.59	£242.98	34	£8,261.32
Personal Electronic Devices	£756.95	£543.14	14	£7,603.96
Rugs	£189.22	£617.29	33	£20,370.57
Sofa	£351.87	£987.87	24	£23,708.88
TVs	£431.74	£442.03	87	£38,456.61
Vacuum Cleaner	£164.28	£664.40	83	£55,145.20
Washer / Dryer	£342.95	£527.26	1047	£552,041.22
Total			**3956**	**£2,156,720.41**

2.7 This exercise indicates that over the course of its first 12 months, FFYE has potentially saved its customers over £2.1 million on the price that they would have paid had they been forced to use rent to own stores instead.

2.8 It should be noted that we have only compared costs for items purchased by FFYE customers which were are also available from rent to own stores. For this reason, the cost comparison involved an assessment of costs for 3,956 products and not the total number of products which were purchased using FFYE over the year (4,099).

2.9 As can be seen from the above table, the largest single product type that is sold through FFYE is washing machines and dryers. Over 1,000 of these have been purchased using FFYE in the past year. The average saving made by customers using FFYE compared to rent to own stores for these items is £527. However, much larger savings (around £1,000) are possible for other item types – such as sofas and dining furniture which FFYE has now added to its product range. Overall, the average saving per item has increased since our last report now stands at £545.18.

2.10 This cost comparison takes account of the fact that the largest rent to own firm, BrightHouse, changed the terms and conditions for some of its agreements over the course of the year. Following pressure from the All Party Parliamentary Group on Debt and Personal Finance [7], BrightHouse has started to offer customers the option of taking out shorter agreements of 52 weeks, and 104 weeks, as well as their traditional 156 week agreements. There has also been a reduction in BrightHouse's total payable price. Even after considering the impact of these changes, it is clear that borrowing from FFYE remains much better value.

2.11 It is important to understand the rationale for FFYE's expansion of its product range. FFYE's initial offering was for white goods – cookers, fridges, freezers, washing machines and dryers. In response to customer demand, it then made basic baby furniture and items (e.g. cots, prams and buggies) available in April 2016. In the autumn of 2016, FFYE reviewed its range and noted that some customers were still likely to use high cost credit sources to fund the purchase of electrical items such as TVs and laptops. Although not considering these items to be essential for many households at the time FFYE felt that it had to respond to these demands if it was to ensure that people were provided with an alternative to high cost lenders. In the autumn of 2016 year it therefore established its 'Good Payers' club which provides people who maintain their payments with access to a wider range of items, including TVs and laptops. As we proceed to report, the inclusion of laptops in FFYE's product range has been particularly helpful for households whose children would otherwise struggle to do their homework.

2.12 Most recently, from the beginning of 2017, FFYE has added carpets and vinyl flooring to its range. This reflects the reality that many English local authority welfare schemes – which

[7] The APPG on Debt and Personal Finance reported on problems in the rent to own sector in February 2015. Their report included a recommendation that firms should offer the option of shorter term agreements. Following the report, the Financial Conduct Authority prioritised examination of rent to own firms in its authorisation process. Decisions concerning the authorisation of firms were initially expected in the summer of 2016, but following the discovery of problems relating to the conduct of affordability assessments and the way in which customers in financial difficulty have been treated the Authority appointed a 'skilled person' to oversee changes in practice and to consider whether a redress scheme for consumers that have suffered detriment needs to be put in place. The skilled person is expected to report shortly ('in early 2017'). See https://www.fca.org.uk/firms/rent-own

replaced the Community Care Grant and Crisis Loan elements of the Discretionary Social Fund following its abolition in April 2013 – have either now been closed completely or, if they do remain, have significantly reduced the level of their help. Many have specifically stopped providing any help for people to purchase carpets or flooring [8].

2.13 The expansion of FFYE's product range beyond items which could have been purchased from rent to own stores means that it is providing greater competition with door to door money lending firms, such as Provident Financial. These firms often provide people with 'shopping vouchers' for high street stores which are underpinned by a loan. Comparing the total costs of borrowing from FFYE with door to door moneylenders, we find that FFYE customers have potentially saved around £750,000 in interest over the course of the year.

KEY FINDINGS FROM THE CUSTOMER AND FOLLOW-UP SURVEYS AND QUALITATIVE INTERVIEWS

2.14 This section now proceeds to set out the key findings from the customer and follow-up surveys and our qualitative interviews. We received 194 responses to the follow up survey (a response rate of 37 percent). The headline findings from our analysis of both surveys are:

- ☑ That customer satisfaction with FFYE is extremely high;
- ☑ The majority of customers are replacing faulty goods or accessing loans to purchase items that they do not currently have; and
- ☑ That FFYE is making a real difference to customer's lives by:
  - – Saving people money and helping them to budget and manage money more effectively;
  - – Reducing anxiety, stress and depression;
  - – Helping customers to better cope with their physical health problems or disabilities; and
  - – Improving children's health and well-being.

2.15 We now report in more detail on each of these findings in turn.

[8] With financial support from Barrow Cadbury Trust we are currently researching the decline of Local Welfare Provision in England and will be reporting on this in April 2017.

CUSTOMER SATISFACTION IS EXTREMELY HIGH

2.16 As was the case throughout our earlier research in this project, the customer satisfaction levels for FFYE are extremely high. In the customer survey 88% of customers rate FFYE as excellent and a further 10% as very good.

2.17 Recent comments received from customers interviewed for this report include:

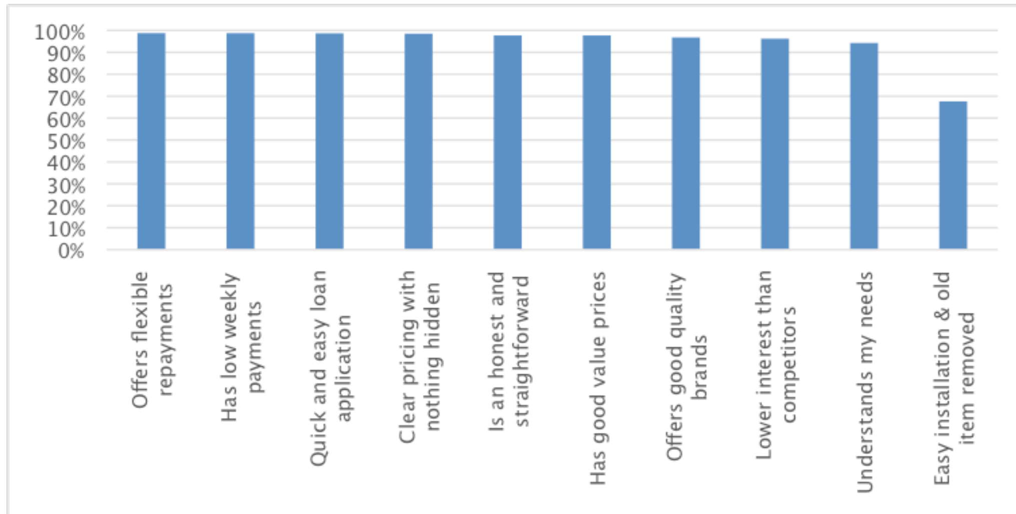
> "I'm just generally really happy with everything at Fair for You. Good value, great products. Couldn't be happier with the service and communication. I was kept up to date with everything along the way. Would definitely recommend."

> "Applied for a loan and I was accepted straightaway. The woman I spoke with to process everything was extremely helpful. The delivery of the bed was on the very day I made the first payment. They were brilliant from start to finish. Payments are affordable and easy to set up."

> "The lady on the phone was lovely, she made sure I fully understood everything."

2.18 As well as seeking an overall satisfaction rating the customer survey seeks views about a number of different aspects of the product and service (see figure 1, below).

FIGURE 1: SATISFACTION WITH SPECIFIC CUSTOMER SERVICE & PRODUCT FEATURES



2.19 There was near 100 percent satisfaction with all aspects of FFYE's product and customer service in the survey with the exception of the product installation and the removal of old items. In this respect, over two thirds of customers agreed that it was easy to have products installed and old items removed but a further 27 percent of customers answered 'don't know' to this question, indicating that the question was not applicable to them.

2.20 In addition to the findings from the customer survey our interviews with customers highlighted how important a number of the product features really are:

> "Fair For You's flexibility of payments has made big difference to me and they are very low."

> "Fair for You's flexibility is helpful. It gives a bit of comfort so you know you won't be penalised if you can't make one of the payments."

> "It was helpful to be able to overpay and I like to get loans paid off quickly."

> "It's good being able to make payments fortnightly and take a payment holiday if necessary, really helpful. My current loan is paid and I'm in the Good Payers Club."

2.21 However, as we have highlighted in previous reports, it is not only the low, flexible payments that customers appreciate. Customers also recognised that FFYE's attitude and ethos is very different to the commercial lenders they have used in the past:

> "If anyone is struggling to purchase essential household goods then I would recommend Fair For You as a fair and transparent company who treat their customers with respect."

> "When I took out my first loan with Fair For You I was heavily pregnant and unable to purchase a buggy for my daughter. I had been rejected everywhere else but accepted with Fair For You which was a massive relief to me. I was able to make payments weekly and when I couldn't the ease of contacting Fair For You and making the payment was easy. There was no judgement and I didn't feel I was being discriminated against. Simply fantastic for a single mum like me who works and isn't able to purchase things outright. Amazing, thank you Fair For You."

> "Responsible not for profit lender that beats the high interest lenders and rent to buy high street stores."

> "Very helpful, quick to respond to queries, always willing to alter payment date if pay days alter due to bank holidays etc., no awkward questions."

THE MAJORITY OF CUSTOMERS ARE REPLACING OLD OR FAULTY ITEMS

2.22 Nearly three quarters (71 percent) of FFYE's customers are replacing old or faulty items and a further 15 percent are using FFYE to purchase items that they did not have previously. Customers we interviewed highlighted the essential nature of many of these items. For example one lone parent we spoke to had been trying to cope without a fridge, with the increased inconvenience and cost that this involved. Another had two children including a baby, and her washing machine had broken. One lone parent with three children had no vacuum cleaner, and another needed a pushchair to be able to go out with her children.

FAIR FOR YOU MAKES A REAL DIFFERENCE TO PEOPLE'S LIVES

2.23 Our follow-up survey with people who had taken out a loan at least six months ago confirmed our earlier findings that FFYE was making a real difference to their lives:

- ☑ Two-thirds of customers in the survey reported that they were better able to budget and manage their money as a result of using FFYE;
- ☑ Half all customers reported that they were feeling less anxious, stressed or depressed;
- ☑ 45 percent were better able to cope with their physical health problems or disabilities, with a third eating more healthily; and
- ☑ A third stated that their children's health and well-being had improved.

2.24 Further questions were then asked of people who reported these positive impacts in order to assess precisely what benefits they were experiencing. We now report on these for each of the impacts in turn.

2.25 Two thirds of all customers in the follow up survey indicated that there was some level of improvement in their ability to budget and manage their money as a result of obtaining a loan from FFYE. These customers were then asked whether or not they agreed with a series of statements as set out in table 4, below.

TABLE 4: THE EFFECTS OF IMPROVEMENTS IN BUDGETING AND MONEY MANAGEMENT

	Agree strongly	Agree slightly	Neither agree nor disagree	Disagree slightly	Disagree strongly	Don't know / not applicable
I have a clearer idea about how much money I have	61.9%	28.1%	9.1%	0.0%	0.0%	0.8%
I have a better understanding about how to make and keep to a budget	59.5%	28.9%	8.2%	0.8%	1.7%	0.8%
I am better able to plan for one off expenses	45.8%	29.2%	18.3%	5.8%	0.0%	0.8%
I am not running out of money before the end of the week or month	45.4%	31.4%	16.5%	1.7%	4.1%	0.8%
I have more money to spend on bills and other essentials	42.2%	37.2%	18.2%	1.7%	0.0%	0.8%
I am able to save money to pay for emergencies or unexpected expenses	36.8%	33.1%	17.4%	5.8%	1.7%	2.5%

2.26 As can be seen from the above table:

- Around 60 percent of those reporting an improvement in budgeting and money management (and therefore about 40 percent of all FFYE customers) agreed strongly with the statement that since borrowing from FFYE they had a clearer idea about how much money they had and had a better understanding of how to make and keep to a budget;

- Around 45 percent of customers reporting an improvement in budgeting and money management (and therefore about 30 percent of all FFYE customers) agreed strongly that they were better able to plan for one-off expenses; were no longer running out of money at the end of every week or month, and had more money to spend on bills or other essentials; and

- Over one third of customers in this category agreed strongly with the statement that they were now able to save money to pay for emergencies or unexpected expenses. This equates to just under one quarter (24.2%) of all FFYE's customers.

2.27 Our interviews with customers shed further light on the way in which FFYE is helping people to achieve these improved outcomes. For example, one customer we spoke to - a single working parent – had a faulty washing machine and freezer but couldn't afford to buy replacement items outright. She therefore turned to FFYE for help and praised the combination of budgeting tools and low cost loans that they provide:

> "The Fair For You budgeting tool helped me and the low payments meant that I am able to hold my standard of living. I have two loans and now I'm in the Good Payers Club."

2.28 Another lone parent told us:

> "I'm on a very tight budget and I'm always worrying about money. Fair For You taught me budgeting skills, which has helped in my general household budget and I'm now feeling that I can manage".

2.29 And a working parent who had previously been using the rent to own company, BrightHouse said:

> "I received advice on budgeting and once this was explained to me I realised that it does make a big difference. We have big savings on repayments, having the freezer allows a bigger shop so we can save money on that, and I can now save".

2.30 Another customer, who also works and had previously used BrightHouse, told us:

> "I feel so much better now. I can see big improvements in the money I have to spend. I have small savings with the credit union but I'm now able to save more. I'm putting aside half of what I'm saving by not paying Brighthouse."

2.31 We also heard from a disabled customer who lives alone and had also previously bought from BrightHouse. He told us that he returned his items to them when he discovered Fair For You and that he:

> "Immediately felt the benefit, I'm better off by about £10 per week and I've been able to save enough money to buy furniture outright for the first time in 60 years".

2.32 Finally, it is apparent from our interviews with customers that the improvements in budgeting and managing money that have resulted from their use of FFYE have improved their mental and emotional health. Several customers told us that they now felt:

> "Proud"
> "In control"
> "It has made things feel better"
> "Life is easier"
> "Learning to budget has made me feel more optimistic"

2.33 As one retired customer put it:

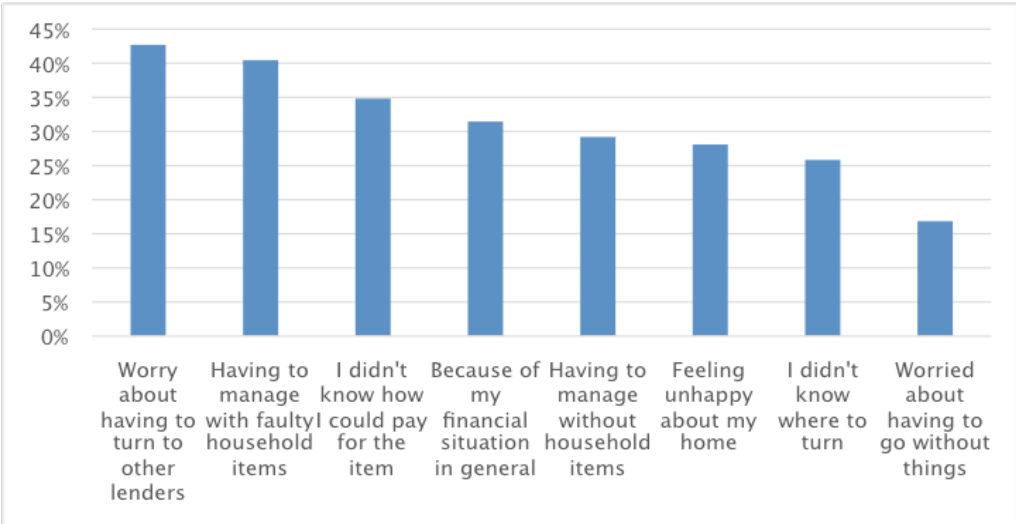
> "Fair For You's flexibility raised my self-confidence and I had a real sense of achievement when my loan was paid off."

REDUCED ANXIETY, STRESS AND DEPRESSION

2.34 Half of the respondents to our follow up survey said that their feelings of stress, anxiety or depression had improved, and eight of our telephone interviewees had mental health conditions which they had previously received medical services for. These included bipolar disorder, depression and anxiety, panic attacks, self-harm and agoraphobia. A further ten interviewees said they had experienced stress, anxiety or depression that they hadn't visited the doctor about.

2.34 Our follow up survey and interviews asked people why they had felt anxious, stressed or depressed prior to using FFYE (see figure 2, below).

FIGURE 2: REASONS FOR ANXIETY, STRESS AND DEPRESSION PRIOR TO USING FFYE



2.35 The most common reason given was concern about having to use other, high cost, lenders. This was given by 45 percent of people who had reported an improvement in their mental health since using FFYE – equating to around one in five of all FFYE customers.

2.36 However, managing with faulty items was reported as a cause of mental health problems for 40 percent of people in this sub-group and a further 29 percent reported the cause of their mental health problem as having to manage without any basic items at all. Taken together, these figures imply that around one third of all FFYE customers improve their mental health because they are now able to obtain properly working items that they need.

2.37 Our interviews with customers shed further light on the ways that going without basic items affect mental health:

2.38 A customer who had just moved into a new Council house said:

> "I started to panic about not being able to afford a cooker – it increased my worries which are ever present when on a tight budget and with a disabled child. [Finding out about FFYE] definitely reduced the stress on me and my partner."

2.39 One customer with multiple physical and mental health conditions had received a bed from Fair For You and told us:

> "I slept on mattress on floor for eight years, it made me feel miserable and not like other people. Having a bed makes me feel better about myself."

2.40 Whilst a lone parent with three children who has bipolar disorder and had been left debts that her former partner had run up told us:

> "I was worried and stressed about how I might manage to buy furniture and repay my share of my partner's debts. The level of my medication was increased to keep me steady but [since using FFYE] it's back down to my normal dose and I'm feeling much happier. The knowledge that I can have new household items has given me a big lift".

2.41 This highlights that simply knowing that FFYE is there to help people in the future is part of the positive impact that it has on their mental health:

2.42 Customers said:

"The family all felt better knowing that there is a fairer option for credit, it's a relief all round."

"I know that if anything breaks, Fair For You is there, and that's a great comfort."

"Knowing that I can go back to Fair For You and can afford to buy things in a way which suits me has definitely helped to reduce my stress."

BETTER ABLE TO COPE WITH PHYSICAL HEALTH PROBLEMS OR DISABILITIES

2.43 45% of respondents to the follow up survey identified that they were better able to cope with physical health problems or disabilities as a result of using FFYE. Health conditions mentioned by customers included diabetes, emphysema, cancer, osteoporosis, fibromyalgia, osteoarthritis, and heart disease, and customers also often told us that they were caring for children with a wide range of disabilities.

2.44 Although it is not possible to detail all of the ways in which using FFYE has helped people to better cope with health conditions and disabilities, we have identified a number of commonly reported mechanisms through which this is achieved. These are:

2.45 Physical health improves as a result of better mental health. For example, a customer who is currently undergoing treatment for cancer described how using FFYE had removed worries about money, helping her to focus on recovering.

"I have cancer so I'm anxious and stressed and in touch with my GP about this. Fair For You took off the pressure regarding money problems and I feel more in control, so that I can concentrate on myself more."

"My health has improved because I feel less worried and stressed about the financial situation."

2.46 Getting some items directly improves health. Some of the items which people purchase with loans from FFYE are specifically related to their health conditions. This applies, for example, to beds and comfortable furniture for people with muscular or skeletal conditions, but the range of items with potential health benefits is very varied. For example, one customer told us that:

"I have been diagnosed with a host of health problems and disabilities including fibromyalgia and my partner is my full time carer. I was advised to ride a bike for exercise. I couldn't afford a bike that fits my particular needs but I got one through Fair For You."

2.47 People have better diets. Around one third of people completing the follow-up survey reported improvements in their diet with this most commonly resulting from the purchase of cookers, fridges and freezers through FFYE. However, the savings they made from using FFYE as opposed to high cost lenders and the improved budgeting and money management techniques they had learnt also meant that they were now able to make healthier choices:

"I've got more money to buy different things for the kids to try. My son with ADHD has to eat certain foods and I've been able to get him a lot more of the things he is able to eat without it disturbing his ADHD too much."

"I have more money to spend each week on health food rather than having to buy cheap processed food."

"I bought a cooker, fridge, and freezer. My old cooker was dangerous and had to be removed and food wouldn't stay fresh in the old fridge and we weren't eating properly. Now with budgeting and buying in bulk which is cheaper and possible with fridge and freezer, it's easier to eat healthily. I feel good about being able to provide healthy meals for my family and giving my children the experience of homemade cooked meals like I had as a child."

"The bigger freezer enables bulk buying so we can spend more money on food."

2.48 Again, there also appears to be a link between FFYE's positive impact on mental health and improvements in the diets that people eat:

"I started feeling more positive about myself so I went on a healthy eating plan."

"I haven't felt so stressed since using Fair for You so my appetite has improved and my new cooker means I can cook home cooked meals from fresh."

IMPROVEMENTS IN CHILDREN'S HEALTH AND WELL BEING

2.49 A third of people with children living with them said that there had been improvements in children's health and wellbeing in our follow up survey. Further details of how this had been achieved can be found in table 5, below.

TABLE 5: HOW HAS USING FFYE IMPROVED CHILDREN'S HEALTH AND WELL BEING?

Child(ren) not so affected by household stress **59%**

There is more money to pay for out of school activities **41%**

There is more money to pay for holidays or trips **39%**

Child(ren) eating better **30%**

There is more money for resources for learning e.g. books or computers / tablets **27%**

Child(ren) sleeping better **14%**

2.50 Nearly 60 percent of respondents to the longer-term impact survey indicated that children were less affected by stress. Customers told us that before using FFYE they "couldn't afford to take the children out" and in many cases children "picked up on situation at home" and that lack of money also "restricted their social opportunities."

2.51 Using FFYE has had a demonstrable positive impact for these customers. For example, one phone interviewee told us:

> "My teenager at home is well aware of the situation and picking up my feelings of worry and I've been worried about him and his behaviour. He has had now been able to have new things and there's an immediate improvement, he feels that he's able to keep up with his peers."

2.52 Based on the figures we have received from FFYE concerning the number of children in its customer's households we estimate that it has had a positive impact on the levels of stress experienced by about 2,500 children over the course of past year. Around 1,300 children are eating better as a result of FFYE, and about 600 children are sleeping better.

IMPROVING CHILDREN'S OPPORTUNITIES

2.53 Although FFYE originally focused on helping people to obtain basic white goods and household appliances, it has since expanded its product range to include some electrical items including laptops. One lone parent described how getting a laptop from FFYE had transformed life for one of her three children,

> "I have an eight year old daughter who has mental health issues. She needed a laptop for homework, she was having to stay behind at school to do her homework which she didn't like as it singled her out as I couldn't collect her at the normal time. My daughter didn't want to go to school which created problems. Now she is so much happier, she cried when the laptop arrived and her attitude to school has improved."

2.54 This was also the case for another customer who had a laptop for her child:

> "Laptop for older child for school which means her opportunities to learn/do homework are improved."

2.55 Another customer who had to give up work because of disability talked about learning opportunities:

> "Fair For You taught me how to budget. Now I do that weekly, fortnightly, four weekly so there's a bit more money available. It's made a difference to my family, especially to my middle child who attends a school which offers many opportunities – e.g. playing a musical instrument."

2.56 A parent who had received a pram identified that it meant that she was able to get out of the house with her children:

> "My children are not stuck in all day everyday now as I have a pushchair to take them out in."

EATING BETTER AND EATING TOGETHER

2.57 A lone parent who replaced a broken oven described how not being able to cook had affected her family:

> "My children were stressed, they always seemed to be hungry and my 13 year old was embarrassed at the situation. I felt bad that I couldn't cook properly for the kids, it was an immediate feeling of relief that I could replace the oven. Now I can provide for kids. Family life is more normal now and children can have friends round for dinner."

2.58 The effect on children's friendships was also mentioned by another customer who needed to replace a broken cooker:

> "My three children were eating no fresh food and no variety, we have a cheap microwave but that can't do more than heat or defrost. I felt the children's physical health was affected. Improvement was almost immediate; they are sleeping better. My daughter said that her friends had been making comments about our situation, but now they can come for a cooked meal."

2.59 For another customer, having a table had helped:

> "We have never had a table. Now we can eat together instead of eating on our laps and the whole family is feeling happier."

3. SOCIAL RETURN ON INVESTMENT

3.1 The previous chapter has identified a number of extremely positive outcomes for users of FFYE. The outcomes, both financial (money saved for households compared to using high cost credit) and non-financial (for example, reduced levels of anxiety, stress and depression) are important not only for the individual households that have used FFYE, but have a wider social value – for example, because they enable people to pay other bills more easily or reduce the demand for mental health services.

3.2 In order to estimate this wider social value, we have undertaken an analysis of outcomes using Social Return on Investment ('SROI') methodology. The methodology has focused on the positive impacts that have been reported by FFYE users, and converts these into estimated monetary values to society.

3.3 To do this, we have followed the guidance published by the SROI network[9] (now Social Value UK). This has required us to consider[10]:

- ☑ How many positive outcomes have been generated for customers;
- ☑ How can those outcomes can be valued:
  - – This requires the use of "financial proxies" for each outcome;
  - – An assessment of the extent to which the impact is attributable to FFYE as opposed to other factors;
  - – How much of the improvement the customer would have had anyway ("deadweight); and
  - – Whether the impact might reduce over subsequent years ("drop off");

[9] The SROI Network (2012) A guide to Social Return on Investment, available from http://www.socialvalueuk.org/resources/sroi-guide/

[10] It should be noted that we have also considered the issue of 'displacement'. This is where the outcome in question has a negative impact on other possible positive outcomes that could be achieved by other individuals or agencies (for example, someone getting a job that might otherwise have gone to another person). Displacement was considered for each of the outcomes identified for FFYE, but we were unable to identify any such effects and we therefore do not consider it to be relevant in this study.

- The costs of providing the service, and because of the nature of loan capital being repaid and subsequently lent out again whether a 'multiplier' effect can be determined moving forwards.

3.4 This chapter now proceeds to detail the approach we have taken in respect of each of these aspects of the SROI calculation in turn and presents our findings.

3.5 Throughout this exercise we have attempted to ensure that the resulting estimate is cautious. To be fully transparent about our approach we have published a full spreadsheet alongside this report which shows how we have calculated the SROI and the sensitivity of our estimate to changes in our assumptions.

HOW MANY POSITIVE OUTCOMES HAVE BEEN GENERATED?

3.6 In order to ensure that we are not over-estimating the SROI generated by FFYE, we have restricted our analysis in this chapter to those customers who have reported that things have 'improved a lot' rather than, as in the previous chapter, those who have reported any improvement at all. We also focused on people who would otherwise have definitely used rent to own stores and/or where we can identify suitable financial proxies (see below) for use in the SROI calculation. For example in assessing financial outcomes:

- 40 percent of people in the follow up survey told us they would definitely have used a rent to own store if FFYE had not been available; and
- We have also included an additional financial proxy regarding the ability of people to save money to reflect the fact that many items contribute to reduce household running costs.

3.7 We have also ensured that the positive outcomes included in the SROI calculation are ones which are maintained over time. The customer survey contains 1,200 respondents, which constitutes around 40 percent of FFYE's customer base, and our follow up survey for people who had taken out loans at least six months ago achieved 194 responses, which represents 6.3 percent of the total current customer base. We analysed the variations in responses given concerning the positive outcomes that respondents reported in the two surveys, and found that there were generally only small differences in the number of people who reported that things had 'improved a lot' against each of our outcome areas (see table, below).

TABLE 6: PERCENTAGE OF CUSTOMERS REPORTING THAT THINGS HAD 'IMPROVED A LOT', CUSTOMER AND FOLLOW UP SURVEYS

	Initial customer survey	Follow up survey
Being able to save money to pay for emergencies or unexpected expenses	38.9%	36.8%
Feeling anxious, stressed or depressed	29.3%	29.6%
Being able to cope with physical health problems or disabilities	24.0%	22.9%
Being able to eat more healthily	27.9%	21.8%
Your children's health and wellbeing or opportunities (e.g. for learning or activities)	28.2%	17.3%

3.8 As can be seen from the above, the results from the follow up survey were slightly lower than for the initial customer survey across all outcome categories. This is not surprising, as customers may have been slightly over-optimistic about the impact of using FFYE when having only just received their loan. It is perhaps more surprising that the variations between the two surveys are generally so small – indicating that the impact of FFYE clearly does continue to be significant at least six months afterwards.

3.9 When estimating the number of positive outcomes generated for customers we have used the percentages from the follow up survey as our starting point. We have been careful to apply these to only those groups of customers that reported some improvement in the specific outcome. For example, two thirds of customers in the follow up survey told us there had been an improvement in their ability to save, and 36.8 percent of these that this improvement had been significant. We therefore estimate that positive savings outcomes have been generated for around one quarter (66% multiplied by 36.8%) of customers.

3.10 Rather than apply these percentages to the entire customer base, we have also been conscious that the sample of people completing the surveys may have been more likely than the average customer to have received a positive benefit from using FFYE. To take account of this we have reduced the number of people for whom we are claiming a significant improvement by one quarter. This percentage has been arrived at following discussions with FFYE concerning the number of people who have struggled at some point or another during their loan to manage their repayments. However, it should be stressed that even for many of these customers, we have had positive feedback about the approach that FFYE takes in order to maintain contact and reschedule payments.

3.11 The approach taken results in an estimate that FFYE achieved a total of 2,753 significant positive outcomes for its customers in its first year of operation. These are broken down by outcome category in the table below.

TABLE 7: ESTIMATED NUMBER OF SIGNIFICANT, POSITIVE OUTCOMES, ACHIEVED BY OUTCOME CATEGORY

Being able to save money to pay for emergencies or unexpected expenses	558
Feeling less anxious, stressed or depressed	793
Being able to cope with physical health problems or disabilities	518
Being able to eat more healthily	493
Improved children's health and wellbeing	391
Total	2,753

HOW CAN THE OUTCOMES BE VALUED?

3.12 To arrive at an initial valuation of the impact of FFYE, we have had to select a number of financial proxies, and consider issues relating to attribution, deadweight and drop off. We first set out our general approach to these issues and then present a table summarising the results from this exercise.

FINANCIAL PROXIES

3.13 The financial proxies we have used have been identified within other social return on investment reports, particularly those published by organisations who are working in the field of financial capability and whose reports have been quality assured by Social Value UK.

3.14 Nevertheless, we have not been able to find robust proxies for the all of the outcomes identified in table 7, above. For example, we have not identified a specific financial proxy for general improvements in budgeting and money management, and we have therefore focused on savings. Also, in respect of physical health, FFYE customers have such a wide range of physical conditions that it would be a major undertaking to research proxies for the social return gained by improving all of these. We have therefore instead selected a proxy which reflects the additional cost to the NHS of treating people with both mental and physical health problems, because we were able to identify some customers for whom their mental and physical conditions were linked and who specifically told us in the phone interviews that using FFYE had helped with both.

3.15 The summary table later in this chapter provides further information on each of the selected proxies and provides references to the source research.

ATTRIBUTION

3.16 This relates to how much of the positive outcome is estimated to have resulted from the use of FFYE, and how much could be as a result of other people or organisations. Customers in the follow up survey were specifically asked how much of the positive impact they reported they considered was a result of using FFYE and we have used that information in our calculations. During our phone interviews we checked on the level of attribution that was reported through the follow up survey. Some customers wanted to revise the level of attribution up, and none wanted to revise it down, indicating that the percentages we have used in our calculations may be an under-estimation. However, in order to be cautious, we have stayed with the original attribution given in the follow up survey.

DEADWEIGHT

3.17 This is an estimate of degree to which positive outcomes would have occurred even if people had not used FFYE. Deadweight has been calculated using information from comparison or control groups where these are available for the specific financial proxy that we have selected. Where no such indication of deadweight has been found then we have followed the Homes and Communities Agency guidance [11]. This draws on research to produce average deadweight estimates dependent on the nature of the programme.

DURATION AND DROP OFF

3.18 These are estimates of the length of time that the positive impacts last after people have used FFYE. Because FFYE has only been operating for just over a year it is not possible to be definitive about these aspects of the calculation. However, our phone interviews indicated that most impacts were likely to last for a significant period, particularly in respect of budgeting and savings behaviour:

> "I've definitely changed my attitude [to budgeting and saving] permanently and plan to maintain the new approach."

> "Indefinitely, I feel in control now and I could go back to Fair For You in the future if necessary".

> "I'm very optimistic, I think the change is permanent and I want to be independent."

3.19 Some respondents were a bit more cautious about mental and physical health related outcomes, acknowledging that the future might be a bit less certain:

[11] Cited in HACT (2014) Measuring the Social Impact of Community Investment: A Guide to using the Wellbeing Valuation Approach, available from http://www.hact.org.uk/measuring-social-impact-community-investment-guide-using-wellbeing-valuation-approach

“As long as things stay as they are.”

“Dependent on my health, a long time.”

“I hope that I’ll continue to feel better.”

3.20 Some of these participants were a year or nearly a year on from their first loan and could see outcomes lasting into the future. Although it is common for SROI calculations to consider impacts over a five year time-frame, we have elected to be much more cautious in our approach and have restricted the duration of FFYE’s impact to either one or two years for each of the outcomes that we have attempted to value.

3.21 The table below now summarises the approach that we have taken in respect of each impacts and provides an estimate of the social value of FFYE’s impact.

	Financial proxy	Rationale	Number of people	Attribution	Deadweight	Duration and drop off	Estimated Social Value
Financial savings compared to using high cost credit in first year after loan	£545.18	This is the average saving per product made by customers who have used Fair For You instead of using rent to own stores	FFYE sold 3,956 products over the year which could otherwise have been purchased using rent to own stores. 40% of customers in the follow up survey told us that had they not been able to use FFYE they would have gone to a rent to own store. We therefore calculate that there has been a direct benefit from FFYE in respect of 1,582 products.	100% due to FFYE	Deadweight is calculated at 0% as customers counted for this outcome did not identify any alternative way of gaining the items other than high cost credit.	The savings started as soon as customers took out their loans. Only one year has been used for duration, as loans are generally paid off within this timescale, so there is no drop off.	£862,475
Better able to save regularly	£2,155	Financial proxy obtained from the HACT (2014) SROI database.	558 people calculated from the follow up survey	100% due to FFYE. Customers praised the budgeting tools that FFYE provided	36%. This is taken from a control group in a Quids In report that measured changes as a result of financial skills training[12]	Savings have been counted for one year only. The savings arise because many items purchased directly reduce household running costs.	£769,593
Feeling less anxious, stressed or depressed	2,609.45	Financial proxy for cost of treating depression for one year (Kings Fund)[13]	793 people calculated from the follow up survey	25%.This is a cautious estimate of the number of people who would have sought medical help for their mental health problems	9%.This is taken from a control group in the Quids In report.	We have assumed that the savings last for two years, with a 10% drop off in the second year.	£972,917
Being able to cope with physical health problems or disabilities	£1,874.69	This is the extra cost to the NHS of treating patients with physical health conditions who also have poor mental health (Kings Fund)[14]	We estimate that 396 of FFYE’s customers would have both mental and physical health problems on the basis of information gathered through the follow-up survey.	50%. This is a cautious estimate of the number of people who would have sought medical health for their physical health problems	27%. This is the standard deadweight recommended for health outcomes in the Homes and Communities Agency guidance	We have assumed that the savings last for two years, with a 10% drop off in the second year	£190,420
Being able to eat more healthily	£3,868	We have calculated this on the basis of the price gap between healthy and unhealthy diets for a family consisting of a woman with a child of ten[15].	We estimate that 493 people FFYE customers are now eating more healthily.	90%. We consider that the vast majority of the improvement in healthy eating can be attributed to FFYE. This is because the items it provides are often directly related to the storage and cooking of food and customers have told us that the money they save has helped them to pay for more healthy food.	27%. This is the standard deadweight recommended for health outcomes in the Homes and Communities Agency guidance	We have assumed that the benefits last for two years, and that there is a drop off of 15% in the second year.	£857,258
Improved Children’s health and well-being	£3,536	We have used the average UK household’s spend on recreation and leisure time as a proxy for the value to FFYE of improvements in their children’s health and well being[16].	We estimate that there have been improvements in the health and well-being of children in 391 customer households	50%. This is cautious estimate of the extent to which the improvement in child health and well being is directly attributable to FFYE.	9%. We have used the same percentage as for adult stress and mental health from the Quids In report.	We have assumed the benefits will last for two years, but that there will be a drop off of 25% in the second year.	£1,088,779
							£4,741,442

[12] Quids in: The impact of financial skills training for social housing tenants, University of Bristol, available from https://www.citizensadvice.org.uk/about-us/how-we-provide-advice/our-prevention-work/financial-skills-for-life/financial-skills-for-life-what-we-do/financial-skills-for-life-past-projects/quids-in-social-housing-research-project/

[13] Kings Fund, Paying The Price The cost of mental health care in England to 2026 available from https://www.kingsfund.org.uk/sites/files/kf/Paying-the-Price-the-cost-of-mental-health-care-England-2026-McCrone-Dhanasiri-Patel-Knapp-Lawton-Smith-Kings-Fund-May-2008_0.pdf, this proxy was also used in Outcomes in Advice, New Economics Foundation, available from www.infohub.moneyadvicetrust.org/content_files/.../bold_outcomes_advice_final.pdf

[14] Ibid

[15] The price gap between healthy and unhealthy food was calculated at £4.99 per 1,000 calories in 2012 (see http://journals.plos.org/plosone/article?id=10.1371/journal.pone.0109343). We have uprated this in line with inflation and multiplied it by the number of calories recommended by the NHS for a family composed of a woman and a 10 year old child. We have then calculated this as the price gap and halved this to reflect the reality that many FFYE customers will be eating a combination of healthy and unhealthy food even after improvements in their diets have taken place.

[16] Family spending in the UK: financial year ending March 2016, Office of National Statistics, available from https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/expenditure/bulletins/familyspendingintheuk/financialyearendingmarch2016#uk-households-spent-more-than-4500-a-week-on-restaurants-and-hotels-for-the-first-time-in-5-years . This proxy was also used in Outcomes in Advice, New Economics Foundation, available from www.infohub.moneyadvicetrust.org/content_files/.../bold_outcomes_advice_final.pdf and Investing in culture and community, MB Associates, available from http://www.socialvalueuk.org/report/investing-in-culture-and-community-the-social-return-on-investing-in-work-based-learning-at-the-museum-of-east-anglian-life/

THE COSTS OF FFYE'S OPERATIONS AND THE CALCULATION OF SOCIAL RETURN ON INVESTMENT

3.22 This estimate of nearly £5 million of social value provided by FFYE as a result of a single year of operation needs to be considered alongside its costs.

3.23 The costs associated with FFYE are split over two different organisations:

- Fair For You Ltd the registered charity, which identifies that it has invested £525,000 over three years in development, which is net of reporting and research costs. To recognise that these set up costs contribute to running the organisations into the future, a period of five years has been used over which to apportion these costs, so a fifth or £105,000 is being assumed for the first year of trading; and
- Fair For You Enterprise Community Interest Company, which is the lending subsidiary of the charity. Fifteen months' costs to December 2016 to cover some start up and the first year of operation totals £952,011, minus interest and commission income of £234,384, and gives a net cost of £717,627.

3.24 We have therefore arrived at a total net cost of £822,627.

CALCULATING THE SROI

3.25 To calculate the SROI we take the estimate of FFYE's Social Value (£4,741,442) and discount this to recognise that investors are taking a degree of risk in providing support for FFYE and could place their funding elsewhere. The Treasury's Green Book recommends applying a discount of 3.5% [17], which brings the Social Value to £4,575,491.

3.26 We then deduct the costs of operation (£822,627) from this to calculate the 'Net Present Value'. This is £3,752,864. The final Social Return on Investment is then calculated as the Net Present Value divided by the costs of operation, which results in a finding that for every £1 invested in FFYE it has delivered *at least* £4.56 in social value.

3.27 This is a considerable achievement, and we expect the SROI to be even higher in future years. This is because the loan capital invested in FFYE is recycled through repayments into additional loans. Even though most current customers have not been using FFYE for a full twelve months capital is already being recycled and as the rate of this increases moving forwards, it will provide a significant 'multiplier' effect to the current SROI figure. We recommend that the SROI calculation therefore be revisited in the next 12 months and updated to take account of this.

3.28 As part of this proposed refresh, we also recommend that further follow up surveys are conducted with customers in order to obtain additional insight into the length of time that positive outcomes are being maintained over. This could therefore allow longer durations for impacts to be included in the SROI calculation.

[17] See https://www.gov.uk/government/publications/green-book-supplementary-guidance-discounting

4. THE MAIN CHALLENGES MOVING FORWARDS

4.1 The previous two chapters have demonstrated a clear justification for social investment in FFYE. However, they also illustrate the damage that is being caused by high cost lending to low income households and the huge social costs that are being created by our failure to provide a large-scale appropriate and affordable credit offer to them.

4.2 Much more investment in FFYE, and to assist with the development and delivery of further products and services to meet the credit needs of lower income households is needed. In our view there is now a clear business case for this investment to be provided from a combination of national and local Government and its agencies (particularly those providing social investment such as Big Society Capital); utility companies, social landlords, and health agencies.

4.3 However, more funding on its own will not be sufficient. As our second report highlighted:

- ☑ FFYE is being hampered in its ability to offer people who have previously used high cost credit a 'second chance' due to the misreporting of credit information by other lenders, which often made it appear that customers were more highly indebted than was actually the case;
- ☑ The FFYE loan product is not a direct substitute for all high cost credit, such as cash loans provided by door to door and payday lenders. A high proportion of FFYE customers have used these sources of credit in the past and some are continuing to do so. Traditional, monthly, credit reporting by high cost lenders are inadequate to allow FFYE to identify applicants that have recently taken out high cost credit before approaching them for a loan and who therefore pose a higher risk of default;
- ☑ Some applicants for FFYE loans are too high a risk for it to lend to because they have inadequate information on their credit file. Although a loan from FFYE would have beneficial impacts on the overall budget for these applicants, which would likely improve their ability to pay other bills – including rent, utilities, and Council Tax – the level of risk involved would need to be mitigated by these third parties providing some form of guarantee or 'hardship' fund before FFYE could make a loan;
- ☑ Many low income households are in serious debt problems and FFYE has a number of customers who have entered into debt management plans for the repayment of their debts via advice agencies. Although financially constrained, these households have an ongoing need to purchase household items whilst subject to making payments through their plans. Debts to rent to own stores are often prioritised for payment by advice agencies because the goods purchased through these can be repossessed if payments are not maintained. In contrast, debts owed to FFYE are not a priority because the customer owns the goods themselves from day one. This leads to a bizarre position whereby people on debt management plans maintain access to credit from highly expensive rent to own stores but not to the much cheaper products provided by FFYE.

4.4 These barriers impact not only on FFYE but also inhibit the expansion of other affordable credit providers to the scale required to offer a real alternative to the high cost lenders. We now consider each of the barriers in more detail.

PROBLEMS WITH CREDIT REPORTING

4.5 FFYE is a responsible lender, and only provides credit to applicants after it has determined that they are able to repay a loan. All declined applicants are directed to Turn2Us for a benefit check and a grant search, and at the time of writing FFYE is directing around 200 declined applicants to these sources of assistance.

4.6 This number of declined applicants is higher than it needs to be. In particular, around one quarter of those who are declined are done so because they do not have sufficient information on their credit file for FFYE to make a robust decision about their application. This problem particularly applies to young adults who have 'thin' credit files, or where there has been instability in the household and there has been a need to move home. There may be some future solutions to this problem as a result of the development of alternative credit scoring methods and the sharing of non-traditional sources of information, but the affordable credit sector needs to be engaged in these developments. To date they have largely been taken forward by Fin Tech companies with insufficient knowledge of the needs of low income customers or of the challenges of lending to them. Existing credit reference agencies also need to be much more engaged with the affordable lending sector to ensure that the development of products to assess creditworthiness and affordability are appropriate to their needs.

4.7 Other solutions, which do not rely on changes to credit referencing systems may be easier to implement, and should be explored. For example, some under-writing of risk for younger households could be achieved by social investors piloting a 'guarantee' or 'hardship' fund which can be drawn down by FFYE in the event of default. This would allow it to make loans to this group and evaluate the social impact of this in terms of its effect on widening access to more appropriate and affordable credit. In addition, it may be possible for FFYE to put in place a pure rental option.

4.8 However, it is also apparent that a number of other applicants to FFYE are turned down because of errors on their credit files. These reporting errors include existing credit accounts being rolled over and presented in as if they were new accounts, and accounts being reported in default which are actually being repaid. These errors are likely to be the cause of significant consumer detriment, as they may indicate to other lenders that the customer has more outstanding credit than they actually have, or that they are not working to pay off existing credit. More importantly, these errors will have an impact on the customer's credit score, which many lenders will use as a means to decide whether or not to lend and, if they do, what level of interest to charge.

4.9 In October 2016, J.P. Morgan Chase Foundation provided Fair for You Ltd with a grant to investigate the extent to which credit misreporting is harming consumers. The investigation has included asking FFYE customers and declined applicants to check their credit records and report any errors. Initial findings from this work, which is ongoing, indicate that around 30 percent of people taking part in the exercise have identified some form of error on their credit file. Of these:

- 40 percent had at least one account on their report which was showing in arrears but which should have been shown as up to date;
- 32 percent had at least one account which was showing as active but should be shown as repaid; and
- 11 percent had at least one County Court Judgment showing as active which should be reported as satisfied.

4.10 In addition to this exercise, FFYE has also conducted an analysis of retrospective data for its customers with credit reference information purchased from Call Credit. This has been conducted to see if borrowing from FFYE has improved their credit score, and if not, the reasons for this. From the information collected it is apparent that good payers can increase their credit score by using FFYE. For example, a mother of three bought a washing machine from FFYE in February 2016, at which point her credit score was 365. She went on to purchase a fridge freezer in May 2016 and then a rug in August 2016. Throughout this period she never missed a payment. By October 2016, her score had gone up to 481, an increase of 116 points.

4.11 However, errors on credit files not only make it much harder for people to improve their scores but are resulting in them being turned down for further loans. FFYE has looked at the credit files of customers who had been granted a loan, and then applied again a second time over three months later [18]. FFYE found a number of errors had appeared on credit files between the two applications. These included:

- Multiple cases of Hire Purchase accounts being reported as active every month with a £0 balance, when the account had an end date recorded of 12 or more months ago. This made it appear that the customers had more accounts outstanding than was actually the case;
- One case of an Advance Against Income record being reported as 'dormant' for four months in between two loans being taken out by a customer;
- A case of a Hire Purchase record being reported as an instant 'default' instead of 'voluntary termination';
- A Home Credit record being reported as in 'default' month on month. However, the balance was reducing regularly and therefore should have been reported as an arrangement to pay.

4.11 Until these types of errors are corrected, FFYE cannot make an accurate decision about the level of risk that applicants present and it is likely to decline applications for further credit from them.

4.12 FFYE has therefore been working with applicants to promote the checking of credit files and providing them with advice about how to rectify these. For example, a mother from Scotland applied to FFYE for a pram and carry cot for her new baby. When reviewing her credit file, the loans team saw numerous Hire Purchase records that had recently been 'opened', totalling credit of thousands of pounds. Based on this information, the loans team declined her application, but advised the applicant contested to review her credit file on

[18] Given the short time frame between customers' first and second applications, it was not expected that customers would have seen a dramatic improvement in their credit score, but it gave them an opportunity to engage with their scores and see how these were affected by their repayment behaviour.

Noddle. She stated that she was unable to see the records which had been reported to FFYE. After further investigation it was established by the loans team that the Hire Purchase accounts were existing accounts that had been rolled over and misreported as new records. The loans team was then able to reverse their decision and make a loan for the purchase of items which were essential for the household.

4.13 However, engaging applicants with their credit files in this way is not easy. Many accept that they have a poor credit history and find the process of asking for their information daunting. Even where they do request this are often confused by the information they receive. Many also have a desperate need for items and it is not a good time to engage them in advice about their credit files. They often therefore simply seek out high cost lenders to meet their needs rather than challenge their records. It is also extremely labour intensive for staff within FFYE and has increased their costs of operation significantly.

4.14 Finally, we reiterate the concerns that we expressed in our second report that the monthly reporting of updates to credit files is inadequate to alert FFYE to recent borrowing which, if known, would materially affect its lending decisions. Specifically:

- Following a Competition Commission inquiry into the industry in 2005, a requirement for door to door lenders to share repayment data via credit reference agencies was put in place from March 2008 onwards. However, because door to door loans are often marketed on the basis that missing occasionally weekly payments is acceptable and does not incur any additional fees, the protocol agreed by the regulator and the industry for the reporting of payments only requires that the lender report an account as in default if all weekly payments in any given month have been missed. This makes it extremely difficult for other lenders to utilise this information in their own credit assessments; and
- There has been little evidence of tangible progress in the implementation of a genuine real-time database of credit payments, which was being sought by the Financial Conduct Authority following its review of payday lending practices and the imposition of a cap on the total cost of credit in that sector of the market. This makes it difficult for FFYE to know whether loan applicants have also very recently taken out payday loans prior to applying to them for credit.

PROBLEMS WITH DEBT MANAGEMENT PLANS

4.15 In addition to problems with credit reporting, FFYE has also encountered severe problems with the treatment of rent to own agreements within debt management plans. As many of the households that it is targeting have used high cost credit, including rent to own stores, in the past there is a significant risk that some will be over-indebted and need to seek assistance to deal with this. One of the most common sources of assistance provided by debt advice agencies is to establish a debt management plan which, whilst it does not provide for any debts to be written off, often results in the freezing of interest and allows the debtor to meet their basic living costs and 'priority' commitments before distributing any remaining surplus income to their unsecured creditors.

4.16 Whilst debt management plans are a valuable source of help for people in financial difficulties, they also create difficulties. Rent to own agreements are a form of Hire Purchase, whereby the goods do not belong to the borrower until the end of the agreement – typically 156 weeks. As a consequence, the repayments on rent to own agreements for essential household items are treated as a part of the priority outgoings of the household and are protected. This means that even if customers of rent to own firms are subject to a debt management plan the rent to own firm still collects its payments in full. In contrast, FFYE – which provides unsecured loans so that the borrower owns the item from day one – would be offered only a proportion of the debtor's surplus income. Given that the average lending to FFYE customers is just £350, and many debtors have very little surplus income after their priority commitments have been taken into account, this results in very small offers of payment – typically just £1 per month.

4.17 The level of payments being offered to FFYE through debt management plans are significantly lower than it is entitled to apply for through the Eligible Loan Deduction Scheme (ELDS). This scheme was established by the Department for Work and Pensions to mitigate some of the risk faced by not for profit lenders such as credit unions and FFYE when lending to people in receipt of benefits. Through the scheme FFYE can apply for deductions from a person's benefits of around £3.70 per week.

4.18 Because the level of payments offered to FFYE through debt management plans is below this level, it is forced to default the loan which then ends the customer's access to FFYE in the future.

4.19 This termination of access to FFYE is problematic for people on debt management plans. Only a relatively small level of surplus funds after accounting for basic living needs is allowed to be retained by the debtor for the purpose of building up savings and because there is no write-off of existing debts debt management plans are often required to stay in place for considerable periods of time (often in excess of five years). During this time, many debtors will invariably have a need to replace essential household items but lack the savings to pay for these themselves and will therefore only be able to use rent to own stores (whose payments were protected during the period of the debt management plan).

4.20 This leads to the bizarre outcome that someone entering a debt management plan with both a high cost rent to own agreement with BrightHouse and an affordable loan from FFYE would lose access to FFYE but retain it with BrightHouse.

4.21 An alternative approach needs to be adopted which reverses this position. This could, for example, involve the replacement of items on rent to own agreements with items purchased through FFYE, in return for the protection of payments to FFYE throughout the term of the debt management plan. Replacing items in this way would free up more money for the debtor which could then be used to repay other creditors or to build up savings.

4.22 Case studies from FFYE illustrate the need for this type of solution. For example, Karen [19], a single mum of one, applied for a loan from FFYE to fund the purchase of a cooker in March 2016. Her credit file gave no cause for concern regarding her payment history, but showed that a hire purchase agreement for two sofas had been taken out two months earlier for £4,344. Her requested loan from FFYE was considered affordable as the repayments, spread over two years came to just under £18, payable every 4 weeks. However, Karen subsequently made only two payments to FFYE before the debt advice agency StepChange notified them that Karen had been in touch for assistance with her debts. Karen's debt management plan showed that StepChange had prioritised the repayments on the hire purchase agreement in her budget, as it considered the two sofas to be 'essential items' but the loan for the cooker was unsecured and therefore not a priority.

4.23 However, if Karen had ended her hire purchase agreement and sent back the sofas; and continued to pay FFYE in line with her agreement, she would have been eligible for further credit from them and could have obtained replacement furniture at much better value.

[19] Not her real name.

5. CONCLUSIONS AND RECOMMENDATIONS

5.1 This report marks the end of a fifteen month long project to assess the social impact of FFYE's operations. In our view there can be no doubt that:

- ☑ FFYE is clearly focused on its target market of low income families, many of whom contain someone who has a long term health condition or disability. A high proportion of these households have clearly been using high cost credit in the past and many have had bad experiences of this;
- ☑ The loan product and service put in place by FFYE meets the needs of low income households to purchase household items at affordable prices. Customers have extremely high levels of satisfaction both with FFYE overall and with specific features of the loan product. They also recognise that the ethos of FFYE is different to commercial high cost credit lenders, and value this;
- ☑ The savings for customers using FFYE instead of rent to own stores and door to door moneylenders are huge. On average customers using FFYE instead of rent to own are saving £527 per item. Over the course of the year, FFYE has potentially saved its 3,068 customers over £2 million compared to the cost they would have paid if using rent to own stores, and £750,000 compared to the cost of using door to door moneylenders;
- ☑ However, FFYE's initial loan product is not a perfect substitute for all forms of high cost credit. It is most suitable as an alternative to high cost rent to own agreements, and, following the recent expansion in FFYE's product range it is now also competing with door to door moneylending. As a result, there is a need to develop new products and services which provide alternatives for other types of high cost credit. These include sub-prime credit cards and high cost payday loans;
- ☑ Many of FFYE's customers are also able to make financial savings because they now have access to efficient appliances which they would otherwise have had to live without. These reduce the cost of running the household, which is vital to people on low incomes in the current economic climate;

- The combination of affordable credit and the budgeting support that FFYE provides has significantly improved its customers' ability to manage their money. Two-thirds of its customers report that this is the case, and around a quarter of its customers are able to put money aside as savings on a regular basis;

- There are also a number of clear non-financial outcomes for clients, which have been sustained over a period of at least six months, and which are likely to last for much longer:

  – Half of FFYE's customers report that they are less anxious, stressed or depressed as a result of using their service;

  – 45 percent have seen an improvement in their physical health, either because the item they have obtained by using FFYE has had a direct impact on this; because they are eating better; or because their physical health has improved alongside their mental health;

  – One third of FFYE's customers report that their children's health and well- being has improved. We estimate that FFYE has had a positive impact on the levels of stress experienced by about 2,500 children over the course of past year. Around 1,300 children are eating better as a result of FFYE, and about 600 children are sleeping better.

5.2 These are considerable achievements and FFYE has clearly had a positive social impact. Even though we have been very cautious when estimating its social value, we conclude that it has provided a significant return on investment, with every £1 spent returning *at least* £4.56.

5.3 Further to this, we expect this figure to rise significantly in future years as repayments are recycled into more loans. In our view, there is a very solid case for increased social investment in FFYE to further increase the scale of its operations moving forwards. Nevertheless, we recommend that FFYE refresh its estimate of social return on an annual basis, and that this exercise includes the conduct of further follow-up surveys with customers in order to gain further insight into the length of time over which positive impacts are maintained.

5.4 The need for FFYE to increase in scale is clear. All of the positive impacts that we have identified for FFYE are reversed for people using high cost credit lenders, which is causing huge damage to low income households and generating massive social costs. National and local Government and its agencies (particularly those providing social investment such as Big Society Capital); utility companies, social landlords, and health agencies and the Financial Conduct Authority must now act in a co-ordinated way to address what amounts to nothing less than a national scandal.

5.5 However, more funding for FFYE and other affordable credit provision will not, on its own, be sufficient. Over the course of the past year, FFYE has uncovered major problems with the way that credit reporting is undertaken by high cost lenders. The errors identified can result in people being unfairly turned down for credit, or charged a higher price than would otherwise be justified, and a major investigation by the Financial Conduct Authority is now needed. This should include a review of the ways in which people can challenge errors on their credit files and of the support that is being provided to help them do this. It should also revisit the problems with the monthly reporting of repayments to door to door moneylenders, and come forward with proposals to ensure that these are reported on at least a weekly basis. We call on politicians of all parties to put pressure on the regulator for action to address problems in credit reporting to be started as soon as possible.

5.6 Even with these changes, there will be some people who will struggle to access affordable credit solutions such as those currently provided by FFYE. In particular, many young people on low incomes are currently too high a risk to be served – having 'thin' credit files. Alternative mechanisms for credit scoring younger households need to be developed, but to achieve this there needs to be much closer working between Fin Tech companies, existing credit reference agencies and the affordable credit sector. New partnerships between these stakeholders need to be developed and encouraged by Government and the Financial Conduct Authority in order to pilot innovative approaches to credit scoring within the affordable credit sector.

5.7 Other solutions may be easier to implement in the short-term. For example, social investors should consider providing additional support to FFYE to enable it to pilot an offering of loans to younger households who would otherwise be refused a loan on the basis of a 'thin' credit file. This could be done by providing a 'guarantee' or 'hardship' fund which FFYE could draw down in the event of default, and would allow FFYE to test out lending to these households; and evaluate the actual risk involved impact on younger households of providing them with access to affordable credit. FFYE could also consider developing a purely rental offer for some other groups of higher risk households who cannot satisfy its lending criteria at the moment.

5.8 Finally, there is a need for the Financial Conduct Authority, Money Advice Service and debt advice agencies to consider how best to meet the needs of people who are on debt management plans to maintain access to essential items for the home. The current position, whereby payments to rent to own forms are often protected within debt management plans is frankly bizarre and runs counter to the household's long term interests.

5.9 A new approach is needed, which in our view recognises the fact that not for profit affordable credit providers are entitled to utilise the Eligible Loans Deduction Scheme that has been made available to them by the Department for Work and Pensions, and which seeks to transition debtor households in debt management plans away from the rent to own firms and towards FFYE.

5.10 We therefore recommend that the Money Advice Service convene a working group comprising representatives from the Financial Conduct Authority, Department for Work and Pensions, debt advice agencies, the hire purchase sector, and FFYE and other affordable credit providers to establish a new approach to the treatment of hire purchase agreements within debt management plans.

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