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INSPIRING SOCIAL CHANGE

HOUSING ASSOCIATION INNOVATION IN DELIVERING AFFORDABLE CREDIT

As UK households continue to face financial pressure, this research examines the strengths and limitations of affordable credit schemes delivered by housing associations, in partnership with others. It provides learning for policy-makers and practitioners that can inform the future development of such schemes.

Key points:

- Good, regular communication and close partnership working between housing associations and credit unions were important throughout, and could help to manage any differences in expectations and cultural differences among organisations.
- Getting the design of schemes right was crucial. Affordable credit schemes need to try to match tenants' needs and expectations at the design stage and be prepared to 'flex' their product offering once up and running. If schemes aim to compete with high-cost lenders, they need to be easy to access, with quick loan approval times. Schemes requiring tenants to save first were not popular.
- Take-up was often slower and lower than expected. Promoting affordable credit schemes can be challenging and resource intensive, particularly where housing stock and staff are dispersed across a large geographical area. It takes time to build up a customer base and for word-of-mouth promotion to develop.
- None of the UK schemes studied could be regarded as financially self-sustaining, but this was not necessarily a primary aim or motivation. Wider social benefits were as important, if not more so.
- Tenants who could access affordable credit schemes benefited from being able to meet essential needs, with lower interest payments compared with high-cost credit. Tenants who cannot afford to repay an affordable loan may benefit from other services such as advice about debt or welfare benefits, charitable grants, or help in accessing local welfare support.

The research

By a team from the University of Bristol's Personal Finance Research Centre, Cobweb Consulting, Ecorys UK and The Open University.

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BACKGROUND

Aiding low-income households to access affordable credit can, in theory, reduce their use of high-cost credit and thereby help to increase their disposable income and improve their financial well-being. The squeeze on household budgets in the years following the recession, alongside reductions in the financial support that people receive from the state, has heightened concerns around the capability of social housing tenants to manage their rent payments.

This study sought to understand what does or does not work in social housing providers' delivery of affordable credit schemes, in the UK and internationally, based on a literature review, a survey of housing associations and thirteen detailed case studies of affordable credit schemes. It provides in-depth insights into the strengths and limitations of housing associations' affordable credit schemes and lessons for policy-makers and practitioners to inform the future development of such schemes.

Nurturing partnerships between housing associations and credit unions

Credit unions were the delivery partner in most of the affordable credit schemes studied. Housing associations felt that they lacked the expertise to run affordable credit schemes, or were reluctant to mix the landlord role with that of lender.

Most successful affordable credit schemes had close one-to-one relationships between the housing association and lead members of staff in the credit union (who were not necessarily the senior officers), with good, regular communication. Many of the schemes were new and experimental, and considerable trust and tolerance were required between partners. Long-term relationships and previous partnerships on other services helped with this.

However, there were some cultural barriers between the differing worlds of housing associations and credit providers. There was some frustration among housing associations at the perceived slow pace at which credit unions operated. For their part, some credit unions reported difficulties with housing associations trying to push ahead with fully formed schemes without first negotiating and discussing the details with them. Some of the cultural barriers were simply products of organisations' disparate sizes, with housing associations generally being far larger and better resourced than loan providers.

Getting the design of schemes right

Tenants eligible for affordable credit schemes were generally offered a standard credit union loan, which had in some cases been tailored for the scheme. For example, some housing associations funded financial incentives to encourage tenants to take up credit union savings accounts.

Affordable credit schemes needed to match tenants' requirements and expectations. Ideally, schemes did this by testing the market at an early stage and adopting a flexible approach to design and implementation. On the whole, tenants were attracted by loans with some of the same features that commercial lenders offer, such as quick and easy loan application processes and same-day loans.

One example of schemes not meeting tenants' requirements was maximum loan amounts that were too low compared with the amounts tenants needed (to buy out debts, or for rent deposits). Schemes requiring tenants to save before they borrowed also tended to be unpopular, as tenants felt that they could not afford to save or because it meant a delay in obtaining the loan they wanted.

In addition, getting the right balance between opening up access to affordable credit and managing loan performance and default levels was challenging for schemes who wanted to lend to people with poor credit histories.

Slower and lower take-up than expected

Low take-up of schemes by tenants was a commonly reported problem. Issues related to scheme design (as noted above) contributed to low take-up. Other factors included housing associations' unrealistic expectations of take-up, and the fact that some tenants who applied could not afford to repay a loan.

The time and effort needed to promote awareness of affordable credit schemes and encourage take-up by tenants could be significant, for both newer and more established schemes. As well as direct advertising (such as adverts in tenant newsletters, posters and mailshots), it was important to 'sell' the scheme internally to housing association staff who could then encourage tenants to apply. Even so, it took time to build up a customer base and develop word-of-mouth promotion. To effectively champion the affordable credit scheme within housing associations needed proper resourcing. In reality, this work sometimes fell to very small and under-resourced teams. Promoting affordable credit schemes was particularly challenging where housing stock and staff were dispersed across a large geographical area.

The difficulty of competing with high-cost credit

A powerful motivation for housing associations to get involved in affordable credit schemes was to offer an alternative to high-cost credit. In practice, it seemed difficult to attract people away from the sources of consumer credit they already used, even if these were significantly more expensive. As indicated above, quick and easy loan processes and same-day loans were some of the features that helped to attract tenants to use affordable loan schemes.

The limited evidence from the case studies as to whether the take-up of affordable loans had replaced tenants' use of high-cost credit was mixed. Based on anecdotal evidence, some reported successfully diverting tenants away from using high-cost credit. Others were aware of only a few cases where an affordable loan had prevented tenants from using high-cost credit. It was also reported that some tenants used an affordable loan in addition to high-cost credit.

Most schemes not financially self-sustaining

None of the UK schemes studied could be regarded as financially self-sustaining. However, this was not necessarily a primary aim or motivation. Wider social benefits were believed to be as important, if not more so.

Most of the credit providers delivered affordable loans at a loss. They either cross-subsidised the scheme from other funding streams, or paid for it from non-repayable grant funding. The restrictions on rental income introduced in the May 2015 Budget may make it more difficult for UK housing associations to fund schemes from revenue budgets in the future.

The two Australian case-study schemes, which funded and delivered their schemes in-house, appeared to come closest to covering their costs. This was because the staff input necessary to administer the schemes was low, the size of the schemes was small, and with low default rates the loan capital was recirculated to make new loans.

Positive outcomes for tenants accessing affordable loans

Overall, housing associations carried out very little monitoring or formal evidence-gathering on the impacts of their affordable credit schemes on tenants. A main benefit that schemes reported for tenants who received an affordable loan was the ability to meet essential needs. Other benefits were improved financial inclusion and money saved in lower interest payments (compared with using high-cost credit).

A strength of the case-study schemes was that they were part of wider financial inclusion and anti-poverty strategies. This meant that tenants who could not afford to repay a loan because they had no disposable income could be referred to other sources of help such as charitable grants and local welfare support schemes, or supported with benefits and debt advice.

Conclusion

The challenges of setting up and running an affordable credit scheme are considerable. This study provides lessons for housing associations and others interested in providing this type of financial support for people on low incomes, such as social housing tenants.

Given their reduced income stream, the temptation will be for UK housing associations to withdraw from activities that are not central to their core purpose of providing and maintaining homes. However, if the welfare reform agenda is not to penalise some of those most vulnerable to financial hardship, housing associations cannot allow themselves to turn away from supporting their tenants through initiatives such as affordable loan schemes.

About the project

The study comprised: a literature review of evaluation and research reports related to affordable credit and financial inclusion initiatives; a scoping study to identify affordable credit schemes and potential case studies, using an online survey of UK housing associations and networking with relevant organisations and individuals; and detailed case-study research with thirteen affordable credit schemes – eleven in the UK (including one which had ceased to operate) and two in Australia.

FOR FURTHER INFORMATION

This summary is part of JRF's research and development programme. The views are those of the authors and not necessarily those of JRF.

The full report, *Housing association innovation in delivering affordable credit* by a team from the University of Bristol's Personal Finance Research Centre, Cobweb Consulting, Ecorys UK and The Open University, is available as a free download at www.jrf.org.uk

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