centre for responsible credit

THE SOCIAL IMPACT OF FAIR FOR YOU

SECOND REPORT

DAMON GIBBONS & BECKY NIXON

September 2016

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

ACKNOWLEDGEMENTS

The social impact reporting project for Fair for You is being funded by the J.P. Morgan Chase Foundation, and we are particularly grateful to Hang Ho and Stephanie Mestrallet at the Foundation for their continued support. However, the views expressed in the report are those of the Centre for Responsible Credit alone and do not reflect the views of the J.P. Morgan Chase Foundation, J.P. Morgan Chase & Co, or any of its affiliates.

We would also like to thank Angela Clements and her staff at Fair for You, particularly their data analyst, Rebecca Ingle, who assisted with the analysis of raw data from the customer satisfaction survey. Thanks also to Jackie Woodhouse at Learning and Work Institute for her assistance with the conduct of the telephone interviews.

Finally, we are particularly grateful to those Fair for You customers who participated in both the telephone interviews and in the survey, who have been very frank and open in sharing their experiences.

FOREWORD FROM TOM LEVITT
CHAIR, FAIR FOR YOU

We know there's a big problem with high cost credit in the UK. We hear about it every day from our customers, most of whom are working, but also having to manage on very tight budgets. Many have impaired credit histories, due to the difficulties of maintaining regular payments to their creditors when their incomes and expenditures are subject to major fluctuations – for example because they are employed on temporary contracts or simply because they are hit with additional living costs at different points throughout the year. They are people who have found themselves reliant on high cost credit to finance the purchase of essential household goods simply because they've no cash in hand and nobody else has been there to help.

Fair for You Ltd. aims to plug this gap through our subsidiary social enterprise lending company, Fair for You Enterprise CIC. We lend to people who may not have perfect credit scores, but who in our judgement, and within our lending approach, show a genuine willingness to repay.

Our loans allow customers to buy new household items such as fridges, washers, beds and baby buggies, from our 'on-line high street' on far more affordable and ethical terms than their other options. Where we can lend, we help families out of a cycle of debt and towards better spending habits. As this report details, a loan from Fair for You can save households significant sums of money, and they are better able to meet their rent or other household bills, start to build up savings or spend on other essentials – often for their children – as a result. It also shows that there are other positive impacts, including reduced feelings of stress, anxiety and depression.

Unfortunately, we cannot lend in all cases. Our loans have to be affordable. Sometimes that means we have to offer a smaller loan than was originally requested. Sometimes, it means we cannot offer people a loan at all. Unlike other lenders, we don't leave people who cannot qualify for a loan high and dry. For those whose finances are so stretched that a loan is not appropriate, we route them to other forms of advice to help them claim benefits and grants.

Whether or not to lend is often a finely balanced decision, and it is not helped by other finance companies misreporting the credit histories of customers. This a widespread problem and this report calls on the Financial Conduct Authority to launch an urgent review of credit reporting by high cost lenders.

This report shows that we are making a real difference to peoples' lives, and are particularly helping those who would otherwise have had to turn to the high cost rent to own stores, or either go without essential items for a considerable period of time.

But we have a much bigger mission. We want to see the wider financial services market work far better for lower income households than it does today. That's why we are committed to helping develop products and services to take on other forms of high cost credit, such as door to door and payday lenders. Moving forwards, we are looking to create a new Centre of Excellence where we can join forces with other social entrepreneurs who share our ambition.

I am hugely proud of what we do. I hope you will see from this report that Fair for You really does represent a new, fairer and essential way of doing business that works for people who do really need, and value, it.

EXECUTIVE SUMMARY

This report provides an assessment of the difference that Fair for You is making to the lives of its customers, who are on low income and who would otherwise have to turn to high cost lenders – and particularly rent to own stores - to purchase households items.

KEY POINTS

- Fair for You is clearly reaching its target market. Its 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.

- Buying household items through Fair for You is considerably cheaper than using rent to own stores. Customers will typically save around £500 per item. Loan durations are much shorter, and because Fair for You Customers also own their items from day one, they do not need to take out any expensive insurances or extended warranties, which rent to own stores often sell. The weekly repayments are also low, and the Fair for You loan product is innovative. It is highly flexible, and allows customers to set their preferred payment schedules, the length of the loan, and to overpay and take payment holidays. These features are highly valued by its customers.

- A high proportion of Fair for You customers have used high cost credit in the past. Customers were generally scathing about their prior experiences of using high cost lenders. In contrast, 87% of people rated Fair for You as excellent and a further 8% as very good. People do not only value the low prices and weekly payments that Fair for You offers, but also identify it as an ethical company offering excellent customer service throughout the customer journey, including when they had problems making payments.

- Obtaining a Fair for You loan was identified by around half of all customers as making it much easier to cope with the day to day costs of running the household, and over one third (38%) reported that using Fair for You had significantly helped them to manage their money and build up regular savings. Over a quarter (28%) of customers reported that they were now a lot better able to pay their rent, mortgage, or other household bills as a result of their Fair for You loan.

- 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 Fair for You had also helped to improve relationships within their family.

- In view of these findings we recommend that organisations which have regular contact with people in Fair for You's target market consider entering into formal referral partnerships with it in order to further extend its reach and help bring it to scale.

- For a number of organisations, including local authorities, social housing providers, and utility companies, we find that it is likely that increasing the number of referrals to Fair for You will improve their own ability to collect Council Tax, rent and bill payments. As a result, these agencies should explore with Fair for You how these outcomes can be captured and reported in order to inform the further development of the Fair for You loan product. In particular, it may be that the cost savings arising for these organisations are significant enough to warrant some level of under-writing for Fair for You loans which would allow them to lend to people who are currently being turned down

- Although the Fair for You loan product is a direct challenge to the rent to own sector, it is being hampered in its ability to offer people who have previously used this source of credit a 'second chance' due to the misreporting of credit information by rent to own lenders. This limits Fair for You's ability to conduct accurate assessments of creditworthiness.

- The Fair for You loan product is also 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 Fair for You customers have used these sources of credit in the past and some are continuing to do so. Again, the credit reporting arrangements in place for these lenders are in need of improvement. There is also a clear need to develop new products that better meet the needs of lower income households and which are capable of providing a wider challenge to the high cost credit market.

- To address problems with credit reporting by high cost lenders we call on the Financial Conduct Authority to launch an immediate review of data sharing practices by rent to own firms, door to door moneylenders, and payday lending firms in order to ensure that reporting is done in real-time; reflects all payments due; and contains accurate information about the indebtedness level and repayment history of the debtor.

- To bring forward new products and services to provide a wider challenge to the high cost credit sector, we recommend that Fair for You should consider establishing a Centre of Excellence for not for profit lending. This would provide support to other social entrepreneurs which share its ambitions to change the way that credit is provided to lower income households, and enable these to access the customer base of its lending subsidiary for the purposes of trialling and development.

- The Centre for Excellence will need to work with social investors, including Big Society Capital, to develop a funding pipeline capable of supporting any such new product development and bringing these to scale at an affordable interest rate. This will require, cheaper, and more patient capital, to be offered than is currently the case, and there will also need to be a greater risk tolerance.

- Finally, it is apparent that many low income households are already in serious debt problems and Fair for You has received applications from a number of these 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. If greater flexibility for these households to take out a loan from Fair for You whilst on a debt management plan is not provided then it is likely that these households will have to go without essential items for some considerable time – with likely negative health impacts for many.

- We therefore recommend that the Money Advice Service, which is responsible for the co-ordination of debt advice in the UK, and the advice agencies themselves, work with Fair for You to establish greater flexibility within debt management plans to allow people who need essential items to take out the affordable and flexible loans that it offers for this purpose.

ABOUT FAIR FOR YOU

Fair for You is a registered charity which makes loans to low income households through its lending subsidiary, Fair for You Enterprise CIC. The lending subsidiary is a form of social enterprise, which began making unsecured loans for the purchase of household items available from its 'online high street' in December 2015. The loan product provides a real alternative for people who would otherwise have to use high cost lenders, particularly rent to own stores such as BrightHouse, PerfectHome and Buy as You View.

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.

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 (a charge is imposed for removal of mattresses due to the nature of its removal).

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 523 responses to the Fair for You customer satisfaction survey; in depth telephone interviews with 44, randomly selected, Fair for You customers; interviews with Fair for You staff; and examination of relevant written documents and reports, including anonymised credit reports.

CONTENTS

1. INTRODUCTION

1.1 Fair for You Ltd is a registered charity, which 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.

1.2 In December 2015, Fair for You's lending subsidiary[1] launched its initial offering of affordable, unsecured, loans to help people on lower incomes purchase essential household items. This was in response to long standing research findings that lower income households often struggled to fund the purchase of items, and were increasingly turning to high cost lenders, and particularly rent to own firms, for this purpose[2]. Whilst customers using these types of credit often welcomed the low weekly repayments, there have been considerable concerns raised with regard lending practices in the rent to own sector.

1.3 The All Party Parliamentary Group on Debt and Personal Finance, chaired by Yvonne Fovargue MP, conducted an inquiry into the rent to own sector last year, and reported concerns about:

- The inadequacy of affordability assessments made by rent to own firms;
- A lack of forbearance for customers who were struggling to repay;
- A lack of transparency in firms' charging structures and advertising; and

That the total amount payable was often excessive due to high mark-ups on the cash prices of items compared to mainstream retailers, high interest rates, and the levying of additional fees for example in respect of insurances and extended warranties.

1.4 Following the publication of the All Party Parliamentary Group's report, the Financial Conduct Authority prioritised the scrutiny of firms in this sector, which is now taking place as it considers whether or not to provide them with authorisation to trade. None of the three largest rent to own firms (BrightHouse, PerfectHome, and Buy as You View) have yet been granted full authorisation to trade, and they are still operating under interim permissions following the transfer of responsibility for the regulation of consumer credit from the Office of Fair Trading to the Financial Conduct Authority, which took place on 1st April 2014.

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[1] The lending subsidiary is a form of social enterprise called a Community Interest Company, and is trading under the name, Fair for You Enterprise CIC.

[2] See, for example, Gibbons, D. (2012), 'Improving Practice in the Rent to Own Market'. Centre for Responsible Credit & Church Action on Poverty.

1.5 In its response to the All Party Parliamentary Group's report, the Financial Conduct Authority indicated that it expected the authorisation process for rent to own firms to be completed by this summer. However, it is clear that it has found evidence of problems in lending practice which has delayed this:

- In March, the Financial Conduct Authority announced[3] that Buy as You View would have to pay back £939,000 to customers because of 'historic unfair treatment', mainly relating to the levying of additional fees against customers who were struggling to maintain direct debit payments;

- In July, the Financial Conduct Authority issued a statement[4] indicating that the three largest firms had provided it with commitments to make 'substantial improvements to their policies and processes to ensure that loans are affordable and customers are treated fairly if they encounter difficulty in making repayments'. This indicates that prior poor practice in these areas has been identified, and the Financial Conduct Authority has appointed 'skilled persons' to both ensure that improvements are implemented and to consider what redress schemes for former consumer detriment the firms will need to put in place. The skilled persons appointed by the Financial Conduct Authority are expected to report in 'early 2017'.

1.6 In contrast, Fair for You's lending subsidiary, which is run on a not for profit basis, obtained full authorisation from the Financial Conduct Authority in November 2015. 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.

1.7 Although it is recognised that credit unions and other forms of community finance lenders also provide affordable credit to low income households, Fair for You is different to these because it is not restricted to lending to in small, local, areas but instead has a national on-line presence and is open for business throughout the UK. It therefore holds the potential to significantly disrupt the high cost credit market moving forwards.

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[3] FCA press release, 22nd March 2016. 'Rent-to-own provider Buy as you View to pay £939,000 to around 59,000 customers'. See https://www.fca.org.uk/news/press-releases/rent-own-provider-buy-you-view-pay-%C2%A3939000-around-59000-customers

[4] The statement was made on 18th July 2016, and is available at https://www.fca.org.uk/node/12116

THE FAIR FOR YOU DIFFERENCE

1.8 The initial offering from Fair for You provides low income households with the opportunity to purchase a variety of household items, including white goods, baby buggies, and furniture, at competitive prices from its 'on-line high street'. The items are supplied by major manufacturers, and include a 12 month warranty, with the purchase financed by Fair for You's innovative loan product.

1.9 Unlike high cost rent to own firms, Fair for You loans are unsecured and provide the customer with ownership of the item from day one. There is therefore no need for Fair for You to charge for additional, and very expensive, insurances or extended warranties, which is common in the rent to own sector.

1.10 Because of this, Fair for You loans are much cheaper than rent to own agreements, and customers are able to pay off their loans much earlier. Rent to own agreements typically last for 156 weeks, but the typical duration of a loan from Fair for You is less than half of this.

1.11 To illustrate the cost savings that are possible, table 1, below, provides a comparison of the costs of borrowing from Fair for You with those of BrightHouse (the largest rent to own firm in the sector). The comparison is based on the purchase of a Hotpoint washing machine which is an identical product offered by both Fair for You and BrightHouse.

TABLE 1: COST COMPARISON, WASHING MACHINE, FAIR FOR YOU VERSUS BRIGHTHOUSE

	BrightHouse[5]	Fair for You[6]
New Hotpoint 10kg 1600RPM Washing Machine RPD10657JX – Cash price	£628.01	£476.99
Cost of Credit	£619.99	£139.58
Number of Weeks	156	77
Weekly payments	£8.00	£8.01
APR	69.9%	42.6%
Total payable	£1,248.00	£616.58
Savings for Fair for You customers		£631.42

5 http://www.brighthouse.co.uk/washers-and-dryers/hotpoint-10-kg-ultima-washing-machine-white-8kg-steam-washer-black/

6 http://www.the-ols.co.uk/Products?formAction=search&searchString=RPD10657JX

1.12 As can be seen, Fair for You prices the cash cost of its goods much more competitively and also charges far less interest on its loans. This results in Fair for You customers saving over £630 on the total cost of this item compared to those using BrightHouse.

1.13 Looking across Fair for You's product range, and at the costs of either identical or, where these are not available, comparable, items available from rent to own firms[7], we find that the typical cost saving for people using Fair for You is around £560 (see table 2, below). However, savings are particularly high for people using Fair for You to purchase cookers (£740), sofas (£880), dishwashers (£930), and dining furniture (£1200).

TABLE 2: COST COMPARISON, FAIR FOR YOU AND RENT TO OWN FIRMS, AVERAGE ACROSS PRODUCT RANGE

Item Type	Average Total Fair for You Price	Average Total Rent to Own Price	Savings made by Fair for You customers
Beds	£294.09	£718.05	£423.96
Cooker	£385.93	£1,126.79	£740.86
Dining Set (table & chairs)	£367.61	£1,569.67	£1,202.06
Fridge Freezer	£350.50	£824.30	£473.80
Sofa	£310.32	£1,193.92	£883.60
Washer / Dryer	£349.93	£871.02	£521.09
Dishwasher	£270.66	£1,203.43	£932.77
Average across all item types	£337.25	£901.66	£564.41

1.14 However, Fair for You is not simply cheaper than the rent to own firms. The loan product is innovative: providing an unsecured personal loan product which looks like a traditional form of 'structured credit', but which comes with a number of added features normally only provided alongside 'unstructured' or 'revolving' credit such as through a credit card.

- The personal loan is 'structured' in that it provides customers with a clear loan amount, and repayment requirement, that is set in line with their income, and they are kept aware of their outstanding balance through the use of text messages, posted statements, and monthly on-line updates;

[7] Each item was compared individually based on its features (for example bed size, fridge capacity in litres etc.) and where a comparable item from a rent-to-own retailer was found, the "total payable" price listed on the rent-to-own retailer website was noted. The items were then split by category and the average price paid by Fair for You customers was taken as well as the average price from competitors. This data reflects prices between 1 July and 31 July 2016 inclusive.

- However, customers are also provided with the types of features normally found in credit card lending. For example, the customer has the ability to choose their own payment frequency (weekly, fortnightly, four weekly or monthly); can overpay at any time, with interest being calculated daily and applied in arrears, and can also set their preferred duration for the loan. They can also arrange for 'payment holidays'.

1.15 Loans from Fair for You are also 'directive': they can only be used to purchase the items that the household has selected from Fair for You's 'on-line high street'. Once an item has been selected, and a loan approved, the loan is made directly to the supplier of the item and delivery arranged.

1.16 Fair for You is also committed to treating its customers with respect. There are no additional fees for the set-up of the loan; in respect of delivery costs, or charges for early repayment or missed payments. The cost of removing old items is included on all white goods, although some items such as mattresses do require Fair for You to levy a small removal charge due to the additional costs that these incur.

1.17 Finally the credit is also structured to reward good payment behaviour, and Fair for You has created a 'Good Payers Club' for those who make regular payments:

- The Good Payers Club also gives people access to a wider product range including some that are more 'aspirational' rather than essential. These include items related to entertainment, technology, and personal health;
- Customers in the Good Payers Club will be provided with preferential interest rates, in recognition of their reduced risk of default.

CREDIT ASSESSMENT PRINCIPLES AND HELP FOR PEOPLE DECLINED A LOAN

1.18 Occasional missed payments are common amongst lower income households taking out credit. This is mainly due to the fact that:

- Households often have several income streams, (e.g. wages and benefits) that are paid into the household at different times and frequencies, which can make the management of household bills and other expenditures difficult;
- 'Flexible' employment contracts – including zero hours contracts – create considerable income volatilities, and many people are also trapped in a low pay/no pay cycle – moving in and out of work on a regular basis;

- Households in receipt of benefits (both in and out of work) often experience problems with the administration of these, which can create considerable financial difficulties;

- Households also experience significant fluctuations in expenditure – for example, during the school holidays when the cost of feeding children is higher, or in winter when fuel costs are greater.

1.19 Prior research[8] has also found that needing to make a one-off purchase or covering an unexpected expense, such as when a household appliance stops working and needs replacing, were amongst the most common reasons for low income households to take out credit.

1.20 Whatever the specific pressures on individual low income households, the fact is that missed payments are then reported by lenders through credit reference agencies and this process leads to them being identified as a 'higher risk' group and charged more for their credit than households with higher incomes and more stable financial circumstances.

1.21 Whilst some level of risk based pricing is understandable, there is a point at which the cost of credit, and other additional fees, charged to those on low incomes contributes to further financial problems. Repayments can constitute a relatively high proportion of overall income, and this prevents many households from building up savings such that when additional needs arise they are forced into more borrowing.

1.22 Unfortunately, the UK credit market has become populated with a large number of companies which appear to deliberately trap people in a cycle of repeat borrowing at very high cost. This is a key element of the overall 'poverty premium' for lower income households[9].

1.23 In view of its ambition to provide people who would otherwise have to turn to high cost credit lenders with an affordable and appropriate alternative, Fair for You is tolerant of historic credit problems, such as defaults on credit cards. However, it still requires access to accurate information concerning repayment behaviour concerning loans that have previously been taken out from high cost lenders.

1.24 Unfortunately, and as we report in further detail in the following chapter, this is not currently being provided, and Fair for You has found that the majority of applicants who have previously used rent to own firms have some level of misreporting on their credit files. In many

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[8] "Looking beyond the financial impact of debt…" Salter (2014), available at http://www.demos.co.uk/files/TheBorrowers_REPORT.pdf?1395871961

[9] "Poverty and the Cost of Living: An Evidence Review" Tinson, Kenway, Bushe & MacInnes (2014), available at: https://www.jrf.org.uk/file/45952/download?token=xMthgmvT&filetype=full-report

cases this is resulting in a poorer credit rating than should properly be the case and is causing a high number of applicants to be rejected.

1.25 Nevertheless, even in these circumstances, Fair for You attempts to provide support. For example, Fair for You has obtained funding to help people challenge their credit reports. Where a loan application is for a large amount, and this would prevent a customer from passing its affordability checks, Fair for You has also adopted a practice of asking the customer to reconsider their application for a lower amount. Finally, all applicants that are declined a loan are provided with details about where to find help and advice, including by being signposted to Turn2Us for a benefits check and help with accessing hardship grants.

BOX 1: SUMMARY OF THE FAIR FOR YOU DIFFERENCE WITH RENT TO OWN FIRMS

In a specific comparison to the rent to own sector, Fair for You identifies its core differences as follows:

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.

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 (a charge is imposed for removal of mattresses due to the nature of its removal).

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 THIS REPORT

1.26 Fair for You has commissioned us, over the course of the year, to provide a robust, and independent, evaluation of the social impacts of Fair for You.

1.27 In doing so, Fair for You recognises that independent evaluation is key to making its business case for ongoing funding from its investors, and also to attracting the support of other stakeholders, including social housing providers and organisations providing support to low income families. Many of these have so far been reticent about forming partnerships with financial services providers, and are not directly promoting Fair for You to their service users.

1.28 An initial report was published in March, based on a small number of qualitative interviews with Fair for You customers, which highlighted that:

- ☑ The break-down, or inability to obtain, major household appliances such as cookers, fridges and washing machines often led to increased costs for households, as well as causing stress and anxiety. This was particularly the case in households which contained someone with a long term limiting health condition; and

- ☑ Fair for You was providing a high level of customer service and were recognised as being different. This went beyond simply being cheaper than the rent to own firms. Customers also found Fair for You 'easy to use' and 'friendly', which appeared to improve its chances of successfully maintaining contact with customers and rescheduling payments when problems occur.

1.29 For this report, we have had access to considerably more information from Fair for You and its customers, and throughout July and August of this year we have conducted:

- ☑ A detailed analysis of 523 responses to the Fair for You customer satisfaction survey, which we helped to design. Details of all responses gathered to the survey between December 2015 and August 2016 were provided to us on an anonymous basis. Just over one third of all Fair for You customers completed the survey during this period.

- ☑ In depth telephone interviews with 44 Fair for You customers. These were randomly selected, although we were conscious of the need to talk to customers with different demographic characteristics (e.g. housing tenures, family types, and geographical locations). We also sought to ensure that the interviews captured the views of people who had taken loans out some time ago as well as those who had received their loan more recently; and interviewed a number of repeat customers;

- Interviews with Fair for You staff; and

- Examination of relevant written documents and reports, including anonymised credit reports.

1.30 We also looked at social impacts in a broad sense – for example by asking questions not only about the amount of money that people have saved, but what difference that saving has made to them in terms of their ability to pay rent and other bills; to their health, and for their children and families.

1.31 The main findings, set out in chapter 2, shed considerable light on the precarious nature of many households' finances and the considerable difference that Fair for You is making to them.

1.32 Finally, chapter 3, draws together our main conclusions and sets out four recommendations for action.

2. MAIN FINDINGS

2.1 This chapter sets out our main findings from the study. It is structured as follows:

- Section A provides details of the demographic characteristics of Fair for You customers;
- Section B details their prior use of credit, indicating that in addition to using rent to own firms, around half of all Fair for You customers have used door to door moneylenders to obtain cash loans, and that 37% have used payday lenders.
- Section C reports customer views about the loan and service that they have received from Fair for You. This indicates that the service being provided is highly valued;
- Section D looks at the wider impacts of using Fair for You on:
  - Household and money management, including their ability to pay for housing costs and other bills, and to put aside savings;
  - Mental and physical health;
  - Children's well-being, and
  - Family relationships.
- The section finds that these impacts are significant for around a third of all Fair for You customers, and the evidence supports the case for social housing landlords, utility companies, and organisations working with lone parents and people with long term health problems to enter into formal partnerships with Fair for You in order to extend reach into these groups moving forwards.
- Section E discusses the importance of accurate credit reporting, and the problems posed by widespread prior use of high cost credit and existing debt problems amongst Fair for You's customers.

A. THE DEMOGRAPHIC CHARACTERISTICS OF FAIR FOR YOU CUSTOMERS

2.2 As indicated in our March report, the demographics of Fair for You's customers closely match those of people previously identified as users of high cost credit.

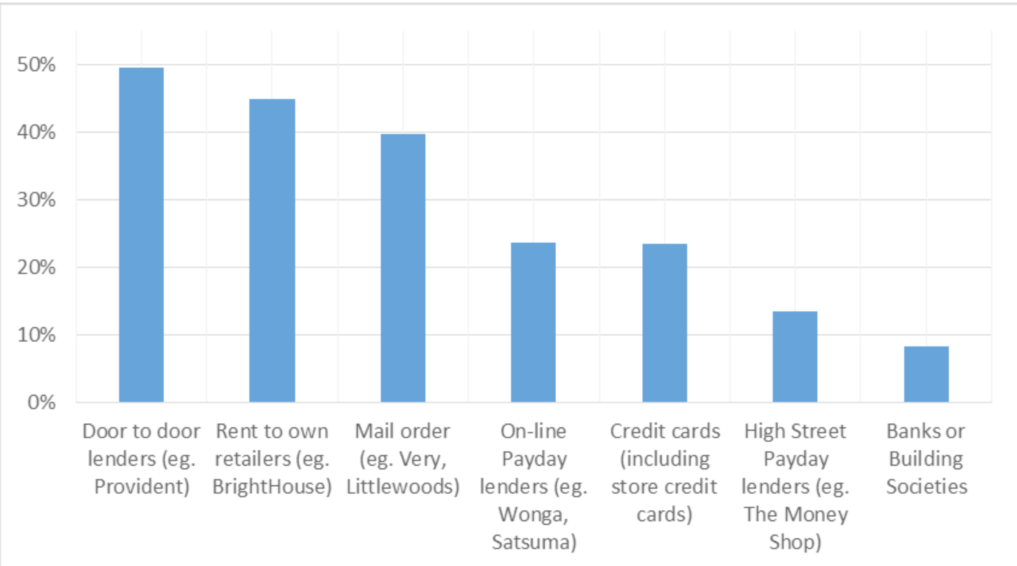
- Three quarters have children aged under 19 living with them and a large proportion (around 60%) are female lone parents;

- Around half are in employment, and of these over half again are in part-time employment. One in ten of all Fair for You customers are in low paid self-employment, and around 3% of customers are employed on 'zero hours' contracts;
- Around half of Fair for You's customers are entirely reliant on benefits;
- A third of customers have a long term limiting health condition. The phone interviews discovered a wide range of conditions including cancer, strokes, arthritis, back and joint pain, depression, anxiety and other mental health conditions, epilepsy, Asperger syndrome, autism, fibromyalgia, ADHD, asthma, glaucoma causing sight loss, and hip replacement;
- A further 28% of customers are caring for someone else with a health problem or disability;
- The vast majority of Fair for You's customers live in rented accommodation, either council, housing association or private; and
- The most common age group of respondents is 24-35.

B. PRIOR USE OF CREDIT

2.3 Customers were asked in the online satisfaction survey which types of credit companies they had previously used (see figure 1, below).

FIGURE 1: TYPES OF CREDIT PREVIOUSLY USED BY FAIR FOR YOU CUSTOMERS



2.4 This indicates that Fair for You customers not only have a high previous usage of rent to own firms (45% of customers) but are slightly more likely to have taken out credit with door to door lenders such as Provident Financial (50%). A significant proportion have also used mail order catalogues (40%), and 37% of customers had taken out payday loans (with the majority of these – 24% - using online as opposed to store based operations).

2.5 In contrast, credit cards (including store cards) have only been used by around one in four Fair for You customers, and credit had been obtained by less than one in ten customers from banks or building societies. Most people told us that there was very little point in even approaching a bank or building society for credit:

"The bank is ten miles away so I didn't try."
"Never thought I'd get it".
"Waste of time."

2.6 However, one customer had direct experience of being turned down:

"I don't think the banks want to help people. Twelve months ago we asked for an overdraft. My husband was working, but they wouldn't give us a short term overdraft".

2.7 Most people turned to other, high cost, lenders either because they had had problems repaying credit in the past, or because they had thin credit files (for example, because they had not got bank accounts, or had insufficient proof of ID or address), which was particularly a problem for younger households.

"Doorstep loan was easy to do, there were minimal credit checks which was useful as I had a poor credit rating from younger years."

"I didn't have a bank account so I didn't have a credit rating."

2.8 The large proportions of its customers that have used door to door and payday lenders has serious implications for Fair for You, both because there have been a number of difficulties identified concerning the quality of credit reporting amongst these lenders (see Section E below), and because the Fair for You loan product is not a direct substitute for the cash loans that door to door and payday lenders provide.

2.9 For example, three of the customers that we spoke to emphasised that they had urgent needs for cash, which Fair for You cannot currently meet:

""I used a doorstep lender – I needed £150 when I moved house for my deposit. I paid nearly £300 back. I used them because I only have a basic bank account (no credit) and I'd borrowed from everyone I could, I had no other option."

"I used payday loan companies to get through to end of month. It was an easy option, quick funds available."

"My relationship had broken down and my ex-partner had made a separate claim [for benefits] without me knowing, which affected our joint claim. I had to put in a new claim and in the meantime I needed cash so I went to Provident."

2.10 Although recognising that they had little option to use these lenders when faced with urgent needs for cash, most people that we spoke to were scathing about their experiences:

"Provident used to come round every week, if I didn't have all the money they wouldn't accept half of it, surely that's better than nothing? It wasn't a good experience. Hopefully that's in the past."

"Repaying the lender meant I had to cut back on electric and gas. This affected my health and I spent a lot of time in bed."

"Provident - I wouldn't use them again, the interest rate was high and the people who came round were aggressive."

2.11 Where Fair for You is now providing a direct challenge is in respect of the rent to own sector. Again, people were very dissatisfied with the cost of these agreements and with the treatment that they had received from these lenders:

"It was very, very stressful for us as there were some weeks when there was very little money - we had to choose whether to eat, pay BrightHouse, or pay the electricity."

"I got a three piece suite from PerfectHome and it cost me an arm and a leg. I wouldn't use them now."

"Buy As You View gave me constant harassment - I had to put money in the meter and if it wasn't in they were ringing, texting - constantly harassing."

C. VIEWS ABOUT FAIR FOR YOU

2.12 In contrast to the views expressed about high cost lenders, the responses to the customer survey and the phone interviews were extremely positive about Fair for You.

2.13 Satisfaction with Fair for You is extremely high, with 89% of people responding to the customer survey rating overall service they received as excellent and a further 8% describing it as very good in the customer satisfaction survey. Typical comments included in responses to the survey included:

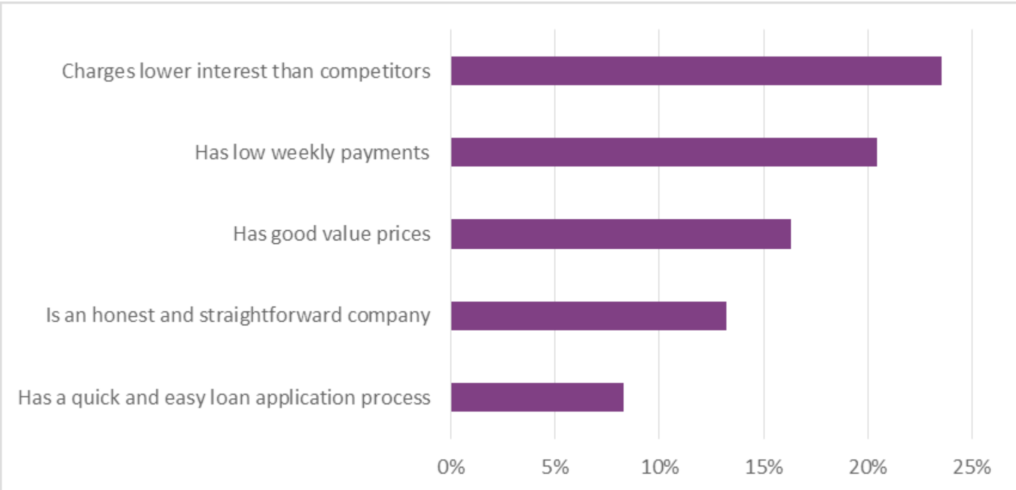
> "I think it is absolutely brilliant I was so happy with everything."

> "Just fantastic in every way."

> "I really liked how fast it was also how polite the staff member on the phone was. Everything was perfect. I've recommended so many of my friends and two of them have been accepted and have items being delivered. Very good service!!!"

2.14 The survey also identified which aspects of Fair for You's customer service were most valued (figure 2, below).

FIGURE 2: WHICH ASPECTS OF FAIR FOR YOU ARE MOST VALUED BY ITS CUSTOMERS?



2.15 Unsurprisingly given the huge cost savings that can be obtained by using Fair for You compared to rent to own and other high cost lenders, pricing issues came top of the list for most customers. Taken together, 60% of customers rated the lower interest costs compared with competitors, low weekly payments, or overall good value prices, their most important feature of the Fair for You offer.

2.16 Comments made to us during the telephone interviews confirmed the importance of the overall cost savings and the affordability of repayments are to people:

> "I've always dealt with BrightHouse before but the cost difference is massive it's helped with money."

> "They don't charge extortionate interest rates that BrightHouse and PerfectHome charge – they only charged me £10.50 interest over 12 weeks."

> "It's a help - the payments are easier to afford every week without worrying about them."

2.17 However, a significant minority of customers (13%) ranked the honest and straightforward nature of Fair for You's service as their most valued aspect. Examining this further in the phone interviews revealed that customers identified Fair for You as an ethical, friendly and helpful service.

> "Ethically they seem different, they emphasise that they're there to help you and to do it better than everyone else."

> "They are totally different in every way – you go through the form and they check what you can and can't afford and then grant you a loan. With BrightHouse they tend to flog you something and then think afterwards about whether you can afford it."

> "They are different - I had a problem because someone used my bank details so I had to phone Fair For You and let them know that payment wouldn't be taken because I had a new bank account, so I gave new details and Fair For You just sorted it out, other organisations would be phoning you up asking 'When are you going to pay?'"

> "They're a lot more helpful - when they phone, their customer service is a lot better, a lot more polite - it's very nice that they know what they're doing and have the right attitude to customer service."

2.18 Just under one in ten of customers identified the quick and easy application process as Fair for You's best feature. This is understandable, because at the time of application:

- 38% of Fair for You's customers are without items such as cooker, fridges, and washing machines;
- 18% of people had appliances that only partly worked, and
- 44% of people had items that they wanted to replace because they were old, or to buy new because they were moving into new accommodation without them.

2.19 Comments that we received about the application process included:

> "It's a lot easier because you apply online and get a yes or no straight away - as soon as you get the form you know – I was worried about being without a cooker."

> "It was really quick and easy. I was contacted on the phone the day after applying and it was all sorted out in 10 minutes."

2.20 In addition to supporting the findings of the customer survey, the telephone interviews also identified that customers were particularly appreciative of:

FLEXIBILITY IN THE DURATION OF THE LOAN

> "Fair for You are flexible about how much you pay and always offer to adjust the payment if it is too high or too low. It's a breath of fresh air."

> "It helped a lot the length of time that the loan was over and also the amount of money."

THE ABILITY TO SCHEDULE PAYMENTS ACCORDING TO THEIR NEEDS:

> "It helped a hell of a lot – I'm able to pay weekly and it's not extortionate."

> "It's been amazing, the payments are brilliant, they take it every month, and I don't pay out that much."

THE SPEED OF DELIVERY

> "I needed a new washing machine, mine didn't work properly which was making it hard for us. We were turned down for a loan elsewhere, but we saw Fair For You on Facebook and were accepted and our washing machine arrived 72 hours later."

THE ABILITY TO OVERPAY AND/OR TAKE PAYMENT HOLIDAYS

"You can choose what you want to pay a week so can overpay for example to pay off loan more quickly and save money."

"Although they set the payments initially I was able to increase to an amount I was comfortable paying, at a level where I could pay more quickly, and so with less interest, pay less overall."

"I would recommend them to everyone. You can pay as little or as much back as you want. If you can't afford to pay one week they allow payment holidays. You can't do that with BrightHouse."

THAT THE SERVICE WAS PROFESSIONAL, HELPFUL, AND FRIENDLY EVEN WHEN PEOPLE HAD PAYMENT PROBLEMS

"They are approachable…If you're struggling you feel they would understand. Other companies don't want to know your situation, you're just a name and number on a screen."

"It seems to be really friendly. I only had a problem twice when my money didn't go in, but it went in on the following day, and Fair for You took that payment when I asked them to – it makes me feel great, I've got the cooker, I'm paying it off and it's mine - it's credit that I can pay for."

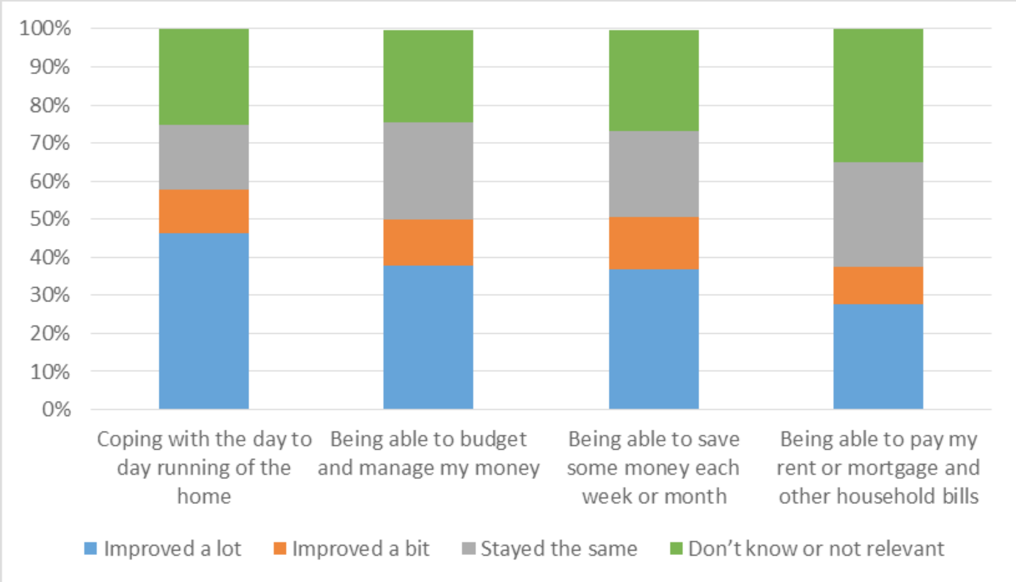
"When my payment didn't go off my debit card, they phoned up and they were fine - other organisations are snotty. Staff are more understanding."

D. THE SOCIAL IMPACTS OF USING FAIR FOR YOU

2.21 In order to assess the wider social impacts of Fair for You we included a question in the customer survey asking people 'what had changed for them as a result of their Fair for You loan?' and also supplemented this with in-depth follow up phone interviews with over 40 customers.

2.22 The main improvements reported by respondents to the customer survey were directly financial, with people reporting that they were better able to manage the day to day running costs of the household, to budget, and to set aside money as savings (figure 3, below).

FIGURE 3: THE DIRECT FINANCIAL IMPACTS OF FAIR FOR YOU



2.23 Just under half (46%) of all customers indicated that their ability to cope with the day to day running of the home had improved 'a lot', and over one third (38%) reported that using Fair for You had significantly helped them to manage their money and build up regular savings. Over a quarter (28%) of customers reported that they were now a lot better able to pay their rent, mortgage, or other household bills as a result of their Fair for You loan. A further 10% to 14% of customers felt that there had been at least some level of improvement in respect of these issues.

Council tenants Ashley and her partner have five children. She had previously got appliances from BrightHouse, but a fridge freezer and tumble drier from there had broken so she returned them and got new ones from Fair for You. She had previously asked members of her family for loans to buy items but they hadn't been able to afford to do so, so she told us she "had no choice but to go to BrightHouse". As a result Ashley "couldn't pay rent because I was paying more out to BrightHouse so I got into rent arrears. Fair for You take a reasonable amount and you can pay as little or as much as you want. Now, I can afford to pay rent and I'm getting back on track with the council." Without Fair for You, if Ashley had had to carry on with BrightHouse, she says, "I probably would have been homeless because of rent, the kids would have gone without clothes and food and I would have been on my backside".

2.24 The telephone interviews revealed that cost savings came about for two reasons:

- ☑ Fair for You was cheaper than other sources of credit, and
- ☑ Obtaining household items often reduced household running costs.

SAVINGS COMPARED TO BUYING ELSEWHERE

2.25 People often compared the cost of loans from Fair for You with those that they would have paid if they had had to use other, high cost, credit:

> "I've saved compared to if I had bought the bunk beds from somewhere else such as a catalogue."

> "Prices are much better than BrightHouse."

> "With Buy As You View, the repayments and interest rates are higher."

> "On the two items I've saved about £20 a week than if I'd got them elsewhere."

2.26 The shorter duration of Fair for You loans compared to rent to own firms was also important. Although a third of telephone interviewees could not identify immediate savings, many of them noted that they would be better off once their loans had been paid off:

> "At the moment I'm paying more a month but it's only for 12 months, over a period of time I will have more money."

> "We will have paid it off in a year, so will have spare money then."

SAVINGS ARISING FROM REDUCED DAY TO DAY COSTS

2.27 As well as the savings as a result of getting cheaper credit, day-to-day savings were also described by people who had purchased cookers or washing machines.

2.28 Comments made to us by telephone interviewees included:

> "It's much more energy efficient now that I have an induction hob and it's really good in terms of heating stuff up quickly".

"I was eating out or takeaways, I was without a cooker for two months, it was costing me a lot of money and I was stressing about it".

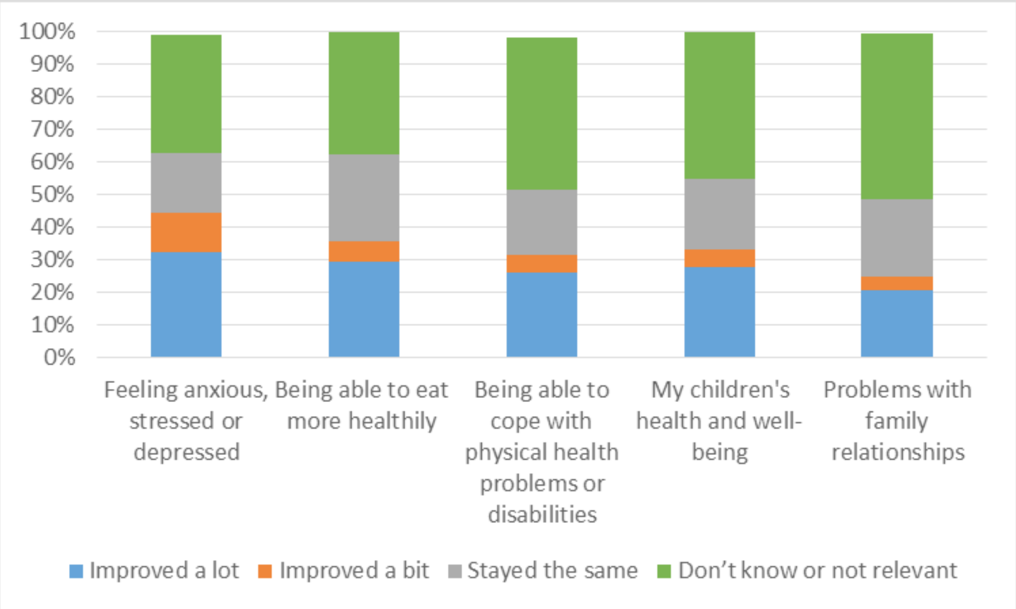
"Our washing machine didn't spin, so we were paying extra heating costs to get the clothes dry".

"I didn't have a fridge, I had to buy things every day, and it was expensive".

Claire works full time and with her partner also looks after her older son who has Asperger's. She said, "Our old washing machine had started to get smelly and the washing wasn't getting properly clean, I was having to go to the laundrette, which was stressful and expensive". She also took out a loan for a dishwasher so that they didn't have to be washing dishes when they got home from work. She says without Fair for You she probably would have had to buy second hand, which would have been a "false economy".

2.29 In addition to these direct financial impacts, customers reported a number of wider benefits (see figure 4, below).

FIGURE 4: WIDER SOCIAL IMPACTS OF FAIR FOR YOU



2.30 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 Fair for You had also helped to improve relationships within their family.

2.31 Regarding stress levels, some people had been struggling because they were previously relying on family and friends:

> "I was using my mum's washing machine - it was a nightmare with three kids - it affected my stress levels, especially as I'm also ill."

2.32 Others were worried about the safety of their appliances:

> "The oven wasn't safe to use – it smoked a lot – I leave my son on his own now and I tell him not to use it but I'm worried that he will and about his safety"

> "I was unlucky enough to have a tumble drier that was recalled because of fire risk, but BrightHouse wouldn't take it back".

2.33 However, the main cause of stress, anxiety and depression was the fact that people were struggling on low incomes:

> "I was stressed about money. I don't like taking loans out. Fair for You has helped to take strain away."

> "I worry about money all the time. Having Fair for You there has helped me to be able to buy the items I needed."

Scott and his partner have two children and have taken out three loans with Fair for You to replace a broken oven, a fridge freezer that was too small, and a dishwasher, which they did not have. He said, "We are always watching money, we have to spend £150 on child's school uniform this month, we can't buy cheap supermarket clothes, as the school has their own design on the uniform. Having Fair for You there helps to take the worry away". He appreciated that Fair for You provided the item rather than the cash, "It's good not to do cash loans rather to get the item as you're paying for what you actually need rather than spending the money on something else instead."

2.34 The fact that Fair for You saves people money, not only helped to reduce the stress that many customers were under, but also fed through into further positive impacts.

2.35 These were most notable in respect of people being able to eat more healthily:

"My fridge freezer wasn't working properly, food wasn't staying fresh so it impacted on what I could buy. Now I'm able to buy better stuff and eat more healthily as I'm not having to worry about storing food."

"Having the new fridge freezer which is bigger has changed the way we shop, it's made it cheaper for us and we can store more healthy food in the fridge."

"My daughter can't eat certain food, and I was having to buy takeaways, and you don't always know what's in them. I can be more confident now about what she's eating and eat more healthily."

Nicola is a lone parent who works as a nursery assistant. She said "I've lived in my house for a while and I've always worked, but when I moved in I had to get everything second hand from friends and family. My cooker and fridge weren't working properly, so I stopped cooking, it had no appeal to me. It affected what we were eating and it was affecting our health, my daughter is a fussy eater and we were living on microwave food. Now I love standing there and cooking a roast meal, I can steam the veg and we're eating more healthily".

2.36 Finally, significant improvements in well-being of children and in family relationships were mainly reported because people had more money available to spend on their children or plan ahead to take a holiday.

2.37 Asked what they would do with the money that they had saved by using Fair for You most customers told us that they would spend this on their children:

"Buy things for the kids – they are expensive and they would have gone without stuff."

"Buy stuff for the new baby that's on the way."

"I'll use it to take the kids out."

"It's going on shopping before I couldn't buy certain things for the children, now I can afford to pay £30 for a school blazer."

"More money for my son."

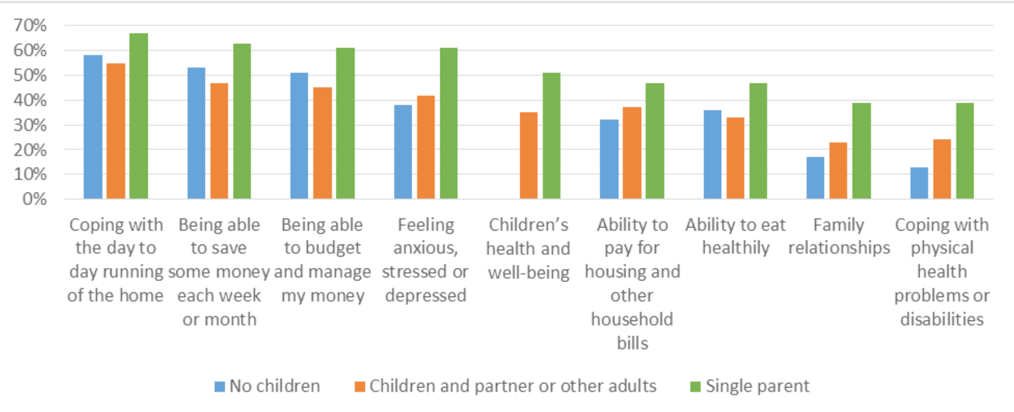
"I've opened a savings account for the new baby."

2.38 The positive impacts of using Fair for You were particularly apparent for lone parent households and those with long term health problems or disabilities, which we now report in further detail.

IMPACTS FOR LONE PARENTS

2.39 Figure 5, below provides a breakdown of the customer survey responses by family type, indicating that around two thirds of lone parent households reported some improvement in their ability to cope with the day to day running of the home, budget effectively, and save money regularly as a result of using Fair for You. Around half of Fair for You's lone parent customers were also better able to meet their housing costs and other household bills.

FIGURE 5: IMPACTS OF FAIR FOR YOU, CUSTOMER SURVEY RESPONDENTS BY FAMILY TYPE



2.40 Lone parents were also more likely than other family types to report improvements in all of the other areas of impact that we looked at. Nearly two thirds of lone parents felt that using Fair for You had reduced their levels of stress, anxiety and depression, and half felt that it had helped to improve their children's health and well-being. Over a third felt that it had benefitted their family relationships and that they were better able to cope with their physical health problems or disabilities.

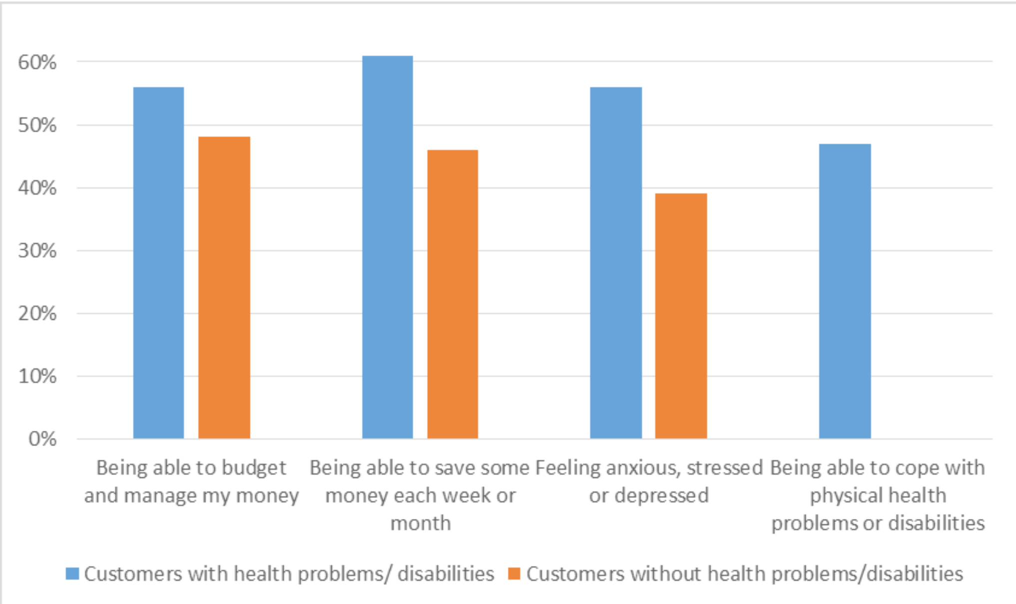
Lone parent Kerry is on a zero hours contract and has two children. She has had three loans from Fair for You, one of which she has paid back, including making a lump sum payment when she had the money to pay it off early and save interest. She has previously used BrightHouse. She said, "During the summer holidays I would just be paying BrightHouse with all of my money, but this summer I've been able to take my kids for trips out to the seaside. I had to cut back on everything before, shopping, everything, my whole life revolved about BrightHouse, my money came in and it went straight out again to BrightHouse. Fair for You is cheaper, I looked at BrightHouse and a washing machine was £600 cheaper at Fair for You, and they take the money every two weeks, whereas BrightHouse was weekly, so I know the money is for me every other week and we've been able to spend it on other things.

IMPACTS FOR PEOPLE WITH HEALTH PROBLEMS OR DISABILITIES

2.41 Figure 6, below, details the differences in the main impacts of using Fair for You for customers with and without health problems or disabilities.

2.42 Nearly half (47%) of people with health problems or disabilities felt that using Fair for You has meant that they are better able to cope with these, and they were also more likely than other customers to report improvements in budgeting and saving. 56 percent of customers with health problems and disabilities also reported reductions in feelings of stress, anxiety and depression compared to 39% of customers without health problems or disabilities.

FIGURE 6: IMPACTS OF FAIR FOR YOU, CUSTOMERS WITH AND WITHOUT HEALTH PROBLEMS/ DISABILITIES



2.43 Again, the telephone interviews shed further light on the way that Fair for You has improved outcomes for people with health problems and disabilities, with people indicating both that the items they purchased were directly beneficial for their health.

THE IMPACT OF HAVING NEW ITEMS

Although only in her early twenties, Jessica has arthritis, which interrupts her sleep. She told us "I just moved home and had a very old, broken and uncomfortable bed, and the state of the bed made my pain worse. I wasn't sleeping because I couldn't get comfortable. Now it's a lot easier to sleep because I have a new bed, and it's improved my health".

Bill has glaucoma and is blind in one eye; he's had a hip replacement and has arthritis in his back. He had a loan for a tumble drier and some living room furniture. He said, "Being disabled the tumble drier has made hell of a difference to help with washing". He also told us that because of his health he's in the house a lot, and being able to get new furniture including more comfortable seating has "made a difference to my front room" where he spends a lot of his time.

E. THE IMPORTANCE OF ACCURATE CREDIT REPORTING

2.44 As indicated previously, many Fair for You customers identified that their poor credit ratings were causing a problem for them, and effectively forced them to use high cost credit.

2.45 Fair for You is tolerant of past credit problems, and its lending policies and arrears handling procedures have been built on the basis of senior management's prior experience of running a sustainable credit union operation. As it is seeking to offer an alternative option to people that would otherwise use high cost lenders, previous customers of those firms, and rent to own firms in particular, are likely to be accepted for a Fair for You loan if they can demonstrate that their financial circumstances are now relatively stable and they have a decent recent payment record.

2.46 This 'second chance' aspect of the service was highly praised by some customers, and is likely to encourage considerable customer loyalty:

> "I was so chuffed to have been accepted for a loan as I knew my credit history was pretty bad, but that was when I was young and carefree. It all caught up with me many years later. Fair For You have given me a hugely appreciated second chance with trust and I really would never let them down. So very grateful."

2.47 However, establishing the recent payment records of applicants is being frustrated by a lack of accurate credit reporting by many high cost lenders, and rent to own firms in particular.

2.48 Examining the anonymised credit files of customers, we found that the majority of Fair for You applicants who have previously used rent to own firms are subject to some level of misreporting, and in many cases this is resulting in a poorer credit rating than should properly be the case.

2.49 Specifically, rent to own firms appear to be replicating a number of agreements when reporting on outstanding accounts to credit reference agencies, which has the effect of making it appear that significantly more debt is present than is actually the case.

2.50 Dealing with this misreporting problem is both time consuming (and therefore costly) for Fair for You to address, and is resulting in more people being rejected for loans than would otherwise be the case – effectively trapping people with their current lender.

2.51 Other problems arise because a large proportion of Fair for You customers have used other forms of high cost credit – notably door to door and payday lenders. The credit reporting arrangements for both of these types of credit are currently inadequate.

- 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;

- There has also been little 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 Fair for You to know whether loan applicants have also very recently taken out payday loans prior to applying to them for credit.

2.52 Until these issues are resolved, Fair for You will be seriously hampered in its ability to undertake assessments of creditworthiness.

2.53 Finally, we also identified a number of applicants to Fair for You who were already subject to debt management plans set up by agencies including StepChange. These plans are often long-term in nature and it is likely that many people will become subject to a need to replace household items during the period of the plan. At the moment, these applicants are not able to obtain a Fair for You loan because the debt management plan is not flexible enough to factor in the regular payments to Fair for You that would be required to service their loan. As a consequence, they would have to go without essential items for lengthy periods of time – for example whilst they built up sufficient savings to enable their purchase. As this report indicates, this is likely to have serious consequences for their health in some cases.

3. CONCLUSIONS AND RECOMMENDATIONS

3.1 This study has provided substantial evidence of the difference that Fair for You is making to the lives of its customers.

- Fair for You is clearly reaching its target market, and many of its customers report that they have previously used high cost credit, including rent to own stores, door to door and payday lenders, and catalogues;
- It is also clearly offering a much more affordable alternative to the high cost credit market for people seeking to purchase household items – with savings typically in excess of £500 per item compared to the cost of using rent to own stores;
- However, it is not only the price of Fair for You loans that customers appreciate. In both the responses to the customer survey and our telephone interviews we found people to be extremely complementary of Fair for You's service throughout the customer journey, and even when problems with payments arose – as is virtually inevitable when serving such a low income market;
- The loan product itself – which provides considerable flexibility for customers – is also clearly well designed to meet the needs of low income households.

3.2 These factors have combined to ensure that using Fair for You has directly, and significantly, improved the financial circumstances of many of its customers, such that:

- Around half are better able to manage the costs of running their homes;
- Around one third are now budgeting more effectively and much better able to set aside regular amounts in savings; and
- Over one quarter are better able to pay household bills, including rent, Council Tax, and utilities.

3.3 In turn, these direct financial impacts – combined with the essential nature of many of the items that Fair for You helps people to purchase – have led to considerable wider social benefits. In particular:

- One third of its customers report that their feelings of stress, anxiety and depression have reduced;

- A quarter of all customers are now eating more healthily and are better able to cope with any pre-existing health problems or disabilities; and

- A fifth of all customers are able to spend more on their children, which has improved their well-being, or have reported improvements in their family relationships.

3.4 As detailed in the previous chapter, these positive financial and wider benefits are even more apparent amongst lone parent customers or households containing someone with a long term limiting health problem or disability.

3.5 In view of these findings we therefore recommend that organisations which have regular contact with people in Fair for You's target market consider entering into formal referral partnerships with it in order to further extend its reach and help bring it to scale.

3.6 For a number of organisations, including local authorities, social housing providers, and utility companies, we find that it is likely that increasing the number of referrals to Fair for You will improve their own ability to collect Council Tax, rent and bill payments. As a result, these agencies should explore with Fair for You how these outcomes can be captured and reported in order to inform the further development of the Fair for You loan product. In particular, it may be that the cost savings arising for these organisations are significant enough to warrant some level of under-writing for Fair for You loans which would allow them to lend to people who are currently being turned down.

3.7 However, it must be recognised that despite its successes to date Fair for You continues to face serious challenges. A significant proportion of its customers have previously used forms of high cost credit (e.g. door to door and payday loans) for which its current loan product is not a direct substitute. There is a need to develop a range of solutions that meet the needs of low income households. We consider it likely that many households will continue to experience urgent needs for groceries, clothes and utilities, and may therefore turn to high cost credit to fund the purchase of these in the future. This could pose a real threat to their ability to maintain payments to Fair for You.

3.8 We also see that there is a need to provide solutions for younger adults and families and those who are not easily able to establish a stable household. These typically have thin credit files and need a way of being able to access essential items that are the basis for dignified independent living without having to turn to high cost lenders.

3.9 We therefore recommend that Fair for You and other stakeholders, including social investors, explore how to provide other credit services designed around the needs of those who cannot access mainstream credit. .

3.10 To help progress the development of these, the Fair for You charity should consider establishing a Centre of Excellence. This would provide support to other social entrepreneurs which share its ambitions to change the way that credit is provided to lower income households, and enable these to access the customer base of its lending subsidiary for the purposes of trialling and development.

3.11 It will, however, be important for the Centre for Excellence to work with social investors, including Big Society Capital, to develop a funding pipeline capable of supporting any such new product development and bringing these to scale at an affordable interest rate. This will require, cheaper, and more patient capital, to be offered than is currently the case, and there will also need to be a greater risk tolerance.

3.12 It also has to be recognised that the large proportion of customers having used high cost lenders is affecting Fair for You's ability to accurately determine their creditworthiness. As detailed in the previous chapter, the current credit data sharing arrangements for high cost lenders are woefully inadequate, and are resulting in many low income households being rejected for Fair for You loans. The poor quality of reporting is also having a direct, negative, impact on the running costs of Fair for You. We therefore call for the Financial Conduct Authority to launch an immediate review of data sharing practices by rent to own firms, door to door moneylenders and payday lending firms in order to ensure that reporting is done in real-time; reflects all payments due; and contains accurate information about the indebtedness level and repayment history of the debtor.

3.13 Finally, it is apparent that many low income households are already in serious debt problems and Fair for You has received applications from a number of these who have entered into debt management plans for the repayment of their debts via advice agencies such as StepChange. Although clearly financially constrained, these households will have an ongoing need to purchase household items whilst subject to making payments through their plans. If greater flexibility for these households to take out a loan from Fair for You whilst on a debt management plan is not provided then it is likely that these households will have to go without essential items for some considerable time – with likely negative health impacts for many.

3.14 We therefore recommend that the Money Advice Service, which is responsible for the co-ordination of debt advice in the UK, and the advice agencies themselves, work with Fair for You to establish greater flexibility within debt management plans to allow people who need essential items to take out the affordable and flexible loans that it offers for this purpose.

centre for responsible credit

www.responsible-credit.org.uk