centre for responsible credit

THE SOCIAL IMPACT OF FAIR FOR YOU

DAMON GIBBONS

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ABOUT THE CENTRE FOR RESPONSIBLE CREDIT

The Centre for Responsible Credit Ltd. is an independent, not for profit, research and policy unit focussing on credit regulation, over-indebtedness, and financial well-being. We are primarily concerned with the impacts of credit use on lower income households and have a remit to monitor the development of credit markets; research models of responsible provision and 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 has led to caps on the total cost of credit that can be charged by payday lenders and rent-to-own companies.

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

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I would like to place on record my thanks to our own Associate, Emma Hamilton who undertook the qualitative interviews with customers and provided considerable insights, and to Becky Nixon and her staff at Ideas to Impact for reviewing our prior qualitative research with Fair for You customers, assisting with the development of the analytical frameworks, and for providing transcription services.

fair4all finance

Finally, the study would not have been possible without funding from Fair4All Finance, and thanks are due not only to Sacha Romanovitch for making this available, but also to Tom Lake and Hanadi Al-Saidi who assisted with the development of the methodology, helpfully reviewed and commented on emerging findings, and provided great encouragement and support.

However, the views expressed in this report, together with the responsibility for any errors or omissions, are mine alone.

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FOREWORD BY JASMINE BIRTLES, FAIR FOR YOU PATRON

Anyone who has been around the block a few times knows that it's never just one event that brings people into poverty and hopelessness. It is a combination of factors, a death by a thousand cuts, that puts individuals and families into a life of lack.

For low income families, support through the hard times can be hard to find. The cards, too often, stacked against them. The benefits system, with its impenetrable rules and too often delayed or inaccurate payments, can feel as much hindrance as help. And high cost 'sub-prime' lenders, for all their smooth advertising and salesmen smiles, are only too happy to ensnare many within relationships of debt dependency.

Fair for You is different. It is resolutely on the side of its customers. It understands them. It treats them with respect. It 'has their back'. This report shows that by offering fair, decent, and flexible loans, Fair for You has not only eased the financial burdens of tens of thousands of hard-pressed families, but it has also given them hope. It has improved their health and the future life chances of their children. In some circumstances I think it has helped to save lives. Unless you have been in a situation where you are worried whether there would be enough money to pay for food tomorrow, you can't know what a desperate lack of money can do to one's mental and physical health.

The people who run Fair for You, and the far-sighted social investors that back it, understand the urgent need for more thoughtful and practical help for the financially vulnerable in our society. It is particularly thanks to its indefatigable founder, Angela Clements, that the business has done so well. The fierce loyalty she has built amongst her customers peels off the pages of this report.

How can we put a value on the work of Fair for You? What do we try to weigh within its scales? In February, this year the business became 'sustainable' (able to cover its own costs). And it has certainly been saving its customers considerable sums of money. But the help, support and understanding offered to families has much wider and deeper effects too. These affordable and flexible loans have brought in at least £50.5 million in social benefits. For every £1 spent on its operations in 2019 Fair for You returned a 'social value' of at least £80. For every £1 spent on its operations in 2019 Fair for You returned a 'social value' of at least £80.

Hugely impressive though that performance is, no attempt to measure Fair for You's value can put a price on a family's dignity, and I am so proud to be patron of the wonderful Fair for You. I can see it making a palpable difference to lives around the country every day – particularly mothers and children, and I can't wait to see what it, and those working with it, can achieve together next year!

Jasmine Birtles, Patron

A MESSAGE FROM FAIR4ALL FINANCE

Anyone who meets the team at Fair for You will experience their commitment and passion to make a difference to the lives of the people they serve.

The business has grown significantly since starting its operations in 2015 and by June of this year has provided over 77,000 loans, worth £26 million, to more than 33,000 customers. This report provides a compelling assessment of the impressive and far-reaching social benefits created by Fair for You. Benefits that are realised by the customers who need them most.

Fair for You serves customers in vulnerable circumstances. 60% of their customers are lone parents and nearly two thirds of these are entirely reliant on benefits for their income. 73% of customers live in social rented accommodation. And a high proportion of households contain someone with a long-term health condition or disability.

We started working with Fair for You as part of our Affordable Credit Scale-up Pilot Programme last year. We were pleased to be able to provide them with long-term patient capital through an equity investment. This is to help them in their mission to achieve sustainable and continual growth. Our thanks must go to Fair for You's existing social investors, who worked alongside us to make that investment happen - Joseph Rowntree Foundation, Esmee Fairbairn Foundation, Tudor Trust, Barrow Cadbury Trust, Robertson Trust and Ignite.

We therefore very much welcome the achievements of Fair for You so far and we're excited by their ongoing initiatives and the ambition of their future plans. Fair for You continues to innovate to design solutions that give people in vulnerable circumstances access to key products to improve their lives in a way which gives them dignity and respect.

This report reinforces the essential role affordable credit can play in helping people lead healthy and happy lives. It also demonstrates the importance of Fair for You's collections approach which reflects a real understanding of the realities of those with unpredictable lives and incomes.

We also believe this report sets a new standard for impact reporting in the affordable credit sector. We encourage other providers to use this as basis for their own impact reporting.

The more we can all do to prove the social impact of affordable credit providers, the stronger the case for further investment in the sector becomes.

We look forward to working with Fair for You and other affordable credit providers over the coming months and years to help ensure customers in vulnerable circumstances have access to affordable and fair credit when they need it. This includes working with the sector to explore how they can extend their reach further into ethnic minority communities, who are often disproportionately affected by financial exclusion. We know this is high on Fair for You's agenda and we encourage other providers to follow suit.

Sacha Romanovitch, CEO, Fair4All Finance

EXECUTIVE SUMMARY

This report provides an assessment of the social benefits that have been created by Fair for You: a Community Interest Company providing affordable credit to families with incomes in the lower half of the income distribution throughout the UK.

Our assessment has involved the analysis of management information in respect of just under 60,000 loans, in-depth qualitative interviews with thirty customers, and a customer survey yielding over 3,700 responses.

HEADLINE FINDINGS

- Fair for You has generated at least £50.5 million of social value since starting in 2015, with the rate of return on investment increasing year on year
- Over £2 million saved from reduced use of NHS services, due to the positive health benefits of having essential home items
- Fair for You has helped an estimated 71% of its customers move away from high cost credit, realising just under £9 million of financial savings
- This is the 'tip of the iceberg' with more than twenty different types of immediate benefits and intermediate outcomes have been identified. For example, customers spending less on food as a result of having a cooker and feeling better about themselves and their home. Many benefits and outcomes contribute towards long-term improvements in health and wellbeing but are difficult to monetise.

ABOUT FAIR FOR YOU AND ITS CUSTOMERS

Fair for You started its lending operations in 2015, and in the period through to 30th June 2020 has provided 77,500 loans worth a total of around £26.3 million to 33,600 customers. To support this, social investors have provided £6.25 million of capital for lending.

Fair for You's customers are predominantly female, with children, and living in social housing. 60% of customers are lone parents, and nearly two thirds of these are entirely reliant on benefits for their income. A very high proportion of customer households also contain someone with a long-term health condition or disability. However, 40% of customer households also contain someone who is working, either full, or part-time.

Fair for You provides its customers with access to an on-line high street. Customers can select essential household items and pay for these by taking out an unsecured loan, repayable between 12 and 78 weeks. Interest is charged on a daily basis on the decreasing loan balance at 3.75% per month. The average loan value is around £350, and eighty percent of loans are paid off within 52 weeks. Around one in ten are paid off in half this time. On average, each loan incurs interest of 17.5% (£61.25), making the average total amount repayable £411.25.

This is considerably cheaper than the alternative forms of borrowing available to this customer group, many of which have previously used very high cost credit sources including door to door lenders, rent-to-own stores and payday lenders. On average, and based on a cautious estimate, each loan that Fair for You provides saves customers who would otherwise have borrowed from these sources £270.

However, Fair for You's lending processes are as important as the cost of its loans: helping people to calculate how much they can reasonably afford to borrow, being flexible with repayments, and refusing to impose late payment charges or re-lend to people in arrears.

Many of its customers highly value these features and report extremely high levels of satisfaction as a result. This includes customers who have experienced repayment problems.

Customers who had borrowed from high cost credit sources in the 12 months prior to using Fair for You reported a huge range of problems, including stress and anxiety about money, cutting back on food and other essentials and struggling to pay household bills. Many told us that they had felt intimidated and harassed by their previous lenders. In contrast, they praised Fair for You for understanding their difficult circumstances and treating them with respect. These are attributes which have built up considerable customer loyalty.

THE SOCIAL BENEFITS OF FAIR FOR YOU

Our research has identified a vast array of social benefits which are directly attributable to Fair for You. These included being better able to manage physical health conditions due to having decent beds and mattresses, spending less on food as a result of having a cooker or a fridge-freezer, and saving on laundry costs and time spent washing and drying clothes, particularly for parents with disabled children.

Over twenty types of such immediate benefits were recorded, and these fed through into intermediate outcomes including reduced stress, anxiety and depression, improved confidence as a parent, more educational and social opportunities for children and healthier diets. In the long term, these contribute to improved health and well-being, people being better able to look for and maintain employment, and improved family relationships.

We identified a similar range of benefits arising due to the directly financial impacts of Fair for You. The savings made by customers compared to the cost of using high cost credit allowed families get on top of household bills, to spend more on food, heating, and on activities with their children. Financial savings also combine with Fair for You's responsible lending processes to help people gain greater control over their finances and in many cases to start saving.

Again, these intermediate outcomes make a significant contribution to longer term health and well-being, especially for customers who have now fully transitioned away from high cost credit sources and have borrowed on more than one occasion from Fair for You.

CALCULATING SOCIAL VALUE

We find that Fair for You has generated *at least* £50.5 million of social value since starting its operation in 2015, and through to 30th June this year. This comprises £48.3 million in financial savings for customers, and over £2 million in savings for the NHS.

Just under £9 million of financial savings have been realised because of the savings made by customers compared to the other sources of credit they would have used to buy essential household items. Customers told us that, in the absence of Fair for You, they would most commonly have resorted to borrowing from door to door lenders, rent-to-own-stores and payday lenders.

However, most of the financial savings have been made because customers would otherwise have had to go without cookers, fridge-freezers, and washing machines for considerable periods. This would have resulted in significant additional living costs. On average, providing affordable loans for essential items saves Fair for You customers just under £30 per week.

The absence of essential items in the home for lengthy periods would also have had severe consequences for the physical and mental health of Fair for You's customers, as well as that of their children. We find that there has been a positive impact, in terms of reduced use of NHS services as a result.

However, this estimate of Fair for You's social value is the 'tip of the iceberg'. Our research indicates a huge range of additional social benefits being created for customers and their children, but we have not been able to put a monetary value on these.

There are, for example, currently no robust financial proxies that we could use to estimate the value to customers of improving the diets of their children, or of sleeping better at night due to reduced money worries. Nor can we accurately assess how far arrears with rent, Council Tax, or other household bills have reduced for the 60% of customers (approximately 20,000 households) that reported this as having taken place directly because of Fair for You.

Nevertheless, based on the financial savings delivered for customers and the impacts on the use of health services alone, Fair for You has provided a significant Social Return on Investment ('SROI'). In 2019, the social value created was over eighty times higher than its net costs of operation.

Increased volumes of lending, and a significant reduction in the net costs of operation (i.e. after accounting for the growth in revenues) are the key drivers of the growth in Fair for You's social return. However, as revenues have now exceeded operational costs, there are difficulties using the traditional SROI measure moving forwards.

We therefore propose a new 'Social Return on Capital Employed' measure for the sector, as a better means of gauging business efficiency. On this measure, Fair for You's social return in 2019 was 384%, and this is set to increase further in 2020. We recommend that social investors roll out the use of this measure. They should also consider commissioning further research to develop appropriate, and robust, financial proxies covering the huge swathe of social benefits that we have not, thus far, been able to value.

CHALLENGES AHEAD AND RECOMMENDATIONS FOR ACTION

It is hard to overstate the impact that Fair for You is having on people's lives. Since the start of its operations, Fair for You has transitioned an estimated 71% of its customers (equating to around 24,000 households) away from the high cost credit sector altogether. It has built a hugely loyal customer base which not only use it because it is cheaper than commercial sources of credit, but because they feel understood and treated with respect even when they experience repayment difficulties, as many inevitably do.

And the provision of affordable and flexible loans to help low income households obtain essential items is having a dramatic impact on their health and well-being, and in many cases on that of their children too.

Finally, the business is generating considerable social returns and is now operating sustainably. These are all tremendous achievements, and we therefore call for everyone who reads this report to commit to doing whatever they can to support the further expansion of Fair for You.

For social investors, including Government, both national and local, that means providing more capital for lending.

Over time, the business will be able to reinvest any surpluses to aid its own expansion. But such a strategy would provide only an extraordinarily slow path to growth. The huge damage being done to low income households including to the health, education, and welfare of their children, demands an urgent response. **A bold plan to rapidly scale up Fair for You is needed, with social investors coming together to back this.**

We also need to recognise that huge numbers of people, currently going without essential items or trapped in debt dependent relationships with high cost lenders, are simply not able to be served profitably. The drive to 'sustainable' (i.e. profitable) business models is increasing the number of households falling into the gap between the social security and affordable credit 'systems': people who are not poor enough for a grant, but who are also too poor for loans.

The drive to sustainable business models is also creating pressure on affordable credit lenders to either raise interest rates, move away from making smaller loans, and/or begin to lend at the margins of affordability. Add to this, the fact that the Covid-19 pandemic is causing many lenders, including those in the not for profit sector, to 'fly to safety', and there is a clear and present danger of a huge expansion of the under-served market: a prospect some high cost lenders are already eyeing with delight1.

Fair for You has been less impacted by the pandemic than others in the sector, partly because of the customer demographic it serves. However, it has witnessed a considerable increase in demand, which it must be capitalised to meet.

The business has also developed new, innovative, ways of meeting the need for lower value loans, and with support from Iceland, Nesta, Fair4All Finance and the Esmee Fairbairn Foundation is introducing a Food Club to help parents of school aged children better cope with the higher costs of living during school holiday periods. Other innovations are possible: to help meet funeral costs, or to provide rental bonds for tenants in the private sector.

Dedicated funding is needed for Fair for You (and the wider sector) to embark on a programme of research and development: to conduct market research, and co-create new products and services together with low income households to help address material deprivation. But such innovations are always likely to prove 'loss leaders' at best. Bringing them to market will require social investors to recognise their non-profitable nature.

There is also a clear case for local authorities, housing associations, and utility companies to support both Fair for You's core business and these new innovations. 60% of Fair for You customers report that they are better able to pay their household bills because of using Fair for You. And many of the parents who will be targeted for the Food Club would otherwise likely need to fall back on local welfare grants or Food banks. **We therefore call for local authorities, housing associations and utility companies to consider how they could provide greater help to Fair for You, for example by providing funding to underwrite risk, and by putting in place referral mechanisms.**

[1] See for example, the comments made by the Chief Executive of Non-Standard Finance, John Van Kuffeler to the Financial Times on 25th June this year https://www.ft.com/content/189d3e59-8ebd-4889-9089-7ac19b9ea2fe

Given the positive impact that Fair for You is also having on health, **we also call for Primary Care Networks to work with Fair for You and create referral mechanisms from their social prescribing teams.**

A trial involving the discounting of capital costs to enable Fair for You to meet the needs of all households referred through this mechanism should now be explored.

Ultimately, it is both the cost and volume of capital which determines how many households Fair for You can serve. Fair for You currently has very high loan rejection rates. **We therefore hope that as well as increasing the level of capital investment, investors also consider the further discounting of its cost.**

The establishment of Fair4All Finance has rightly been identified as a 'game changer', and, by channelling dormant assets funds, and working with other social investors, it has been possible for Fair for You to recently recapitalise its balance sheet which puts it in a much stronger position to meet demand moving forwards.

However, given the findings in this report, we would encourage Government to continue to look at ways in which it can do more to support a wider range of social investment in the sector: for example by expanding the Social Investment Tax Relief scheme, and incentivising banks, to engage more consistently, and on preferential terms.

Finally, it is apparent that the social and economic value generated by lending is highly contingent on the way in which borrowers use their credit. High total cost credit, including as can arise when agreements are constantly refinanced, is extractive: the total costs paid by borrowers can exceed the benefits generated by its use.

In this respect, Fair for You's lending processes are as important as the cost of its loans: helping people to calculate how much they can reasonably afford to borrow, being flexible with repayments, and refusing to impose late payment charges or re-lend to people in arrears. **These best practices should now form the bedrock on which credit should be provided to people on low incomes and we call upon investors in the affordable credit sector, together with colleagues in HM Treasury and the Financial Conduct Authority to explore how they can ensure these practices move from the being the exception to the norm within the next five years.**

INTRODUCTION

1.1 This report provides our assessment of the social impact achieved by Fair for You Enterprise: a Community Interest Company providing affordable credit to families with incomes in the lower half of the income distribution throughout the UK. In most cases these households have previously been reliant on very high cost sources of commercial credit to provide the finance for the purchase of essential household items.

1.2 Fair for You's lending operations began in December 2015. It provides an alternative to the high cost sector by offering the opportunity for its customers to select items from its on-line high street and pay for these by taking out an unsecured loan, repayable between 12 and 78 weeks. Interest is charged on a daily basis on the decreasing loan balance at 3.75% per month.

1.3 The average loan value is around £350, and eighty percent of loans are paid off within 52 weeks. Around one in ten are paid off in half this time. On average, each loan incurs interest of 17.5% (£61.25), making the average total amount repayable £411.25.

1.4 This is considerably cheaper than the alternative sources of credit available to Fair for You's customers. For example:

- A loan of £350 from the door to door lender, Provident Financial, would incur interest of £305 if repaid over 52 weeks (making the total repayable £655.20)[2].
- Purchasing a washing machine with a cash price of around £350 from the rent-to-own store PerfectHome would cost over £600 if paid for in 78 weekly instalments and this would rise further to £686 if the customer took out their insurance against theft and accidental damage [3].
- Since January 2015, the costs of payday loans have been capped at 100% of the amount borrowed, and lenders generally charge up to this amount for loans of six months or more, resulting in a total cost of £700 for a loan of £350.

[2] Details checked on www.providentpersonalcredit.com on 11th August 2020.

[3] Cost of purchasing a Montpellier 9kg washing machine (manufacturer code MW9140P) from PerfectHome, 78 weekly instalments of £7.72. Representative APR 119.19%. Additional cost of theft and accidental damage cover £1.08 per week. Details checked on PerfectHome website on 11th August 2020.

1.5 However, Fair for You does not merely offer a cheaper surce of lending to low income households. It has a commitment to treat its customers with respect and an ambition to change the way this market is served. To this end, Fair for You has designed its products and processes with the active involvement of its target group, including by undertaking regular customer surveys and focus groups.

1.6 When applying for loans, customers are assisted to work out how much they can afford to borrow and to select their preferred loan duration. Selected items are delivered free of charge, and there are no hidden fees, including if occasional payments are missed. As this report proceeds to detail, these features are highly valued by customers and there are extremely high levels of satisfaction with the business, even when customers experience repayment problems.

1.7 Obtaining independent evidence of the ways in which Fair for You's lending is impacting the lives of its customers is a key, and ongoing, concern for the business, and this report follows our previous work to assess the social impact of its first year of operations, which we published in 2017 [4]. At that time, Fair for You had extended just over £1 million in loans to around 3,000 customers.

1.8 The business has grown considerably in the years since. As at 30th June 2020, Fair for You had provided 77,500 loans worth a total of around £26.3 million to 33,600 customers. To support this, social investors have provided £6.25 million of capital for lending.

1.9 Our initial work identified that Fair for You was making a real difference to people's lives: by saving people money; reducing stress, anxiety and depression, and by providing customers with access to essential household items which, in many cases, had direct positive impacts on their physical health. In a third of cases, customers also told us that the health and well-being of their children had improved.

1.10 This report builds on that earlier work, and now provides as comprehensive an assessment of Fair for You's Social Impact as is possible. It is based on our analysis of management information held by Fair for You in respect of 59,000 loan records[5] taken out by 27,000 different customers; thirty in-depth interviews, and a customer survey which yielded 3,751 responses (a response rate of 14%). Further details of our research methods are available in a separate Appendix published alongside this report.

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[4] Gibbons, D. & Nixon, B (2017). 'The social impact of Fair for You: third report'. Centre for Responsible Credit.

[5] To accurately assess repeat lending patterns, we restricted our analysis of loan details to those customers who had initiated their borrowing prior to 31st December 2019.

1.11 Our analysis indicates that the company has delivered *at least* £50.5 million of social benefits for its customers to 30th June 2020, and that the rate of return on investment is increasing year on year. For every £1 spent on its operations in 2019, Fair for You returned a social value of at least £80.

1.12 However, even the £50.5 million figure is a cautious one. The figure captures:

- The cash savings achieved by customers: compared to the other, higher cost, lending sources that they would have used if Fair for You was not available to them.
- The budget savings that customers achieve by having access to household items, where they would otherwise have gone without these for significant periods, and
- The savings to health services, arising from the reported, highly positive, impacts on the physical and mental health of customers and people, including their children, living in their households.

1.13 As this report proceeds to detail, there is substantial evidence of additional social benefits which cannot be included in the calculation of monetary values at the present time. This is due to the lack of robust financial proxies available for this purpose. For example, Fair for You has extremely positive impacts on the education and well-being of children living in its customer's households, and on the self-esteem and confidence of low-income parents. However, there are no robust financial proxies available to us which would enable these benefits to be easily converted into monetary values.

1.14 There are also problems concerning the presentation of the social return, and this report indicates that the traditional method of calculating the Social Return on Investment ('SROI') may not be appropriate to the affordable credit sector.

1.15 This is because the traditional SROI method has been developed for projects which typically receive grant funding to cover operational costs and deliver impacts over a specific timeframe.

1.16 However, lending involves the recycling of capital investment. The impact of capital investment therefore multiplies (net of any bad debt write-off rates) each year. This is particularly the case with Fair for You, which provides relatively small loans to individuals that are frequently repaid within 12 months. It can therefore rapidly recycle repayments into new lending.

1.17 It is also the ambition for not for profit affordable credit lenders to become 'sustainable' (i.e. to cover their operational costs from revenues) over time. Fair for You has now achieved this position and has been profitable since February 2020.

1.18 Even though Fair for You's revenues now entirely cover its operational costs, there do, however, continue to be costs for investors. These are represented by the extent of any discount on the interest rate charged by investors on their capital. To better reflect this, we therefore propose that a new measure of social return for the affordable credit sector be adopted moving forwards.

1.19 This is the Social Return on Capital Employed ('SROCE'). We calculate this in much the same way as the Return on Capital Employed ('ROCE'): a commonly used ratio to assess the business efficiency of commercial firms. This is arrived at by dividing net profit by net assets. In the case of SROCE we also include the value of estimated social benefits in the calculation of 'net profit'. On this measure the return for Fair for You in 2019 was 384%. This will increase further in coming years as the business continues to scale.

1.20 However, it is only when a consistent social impact reporting framework is in place across the sector that any comparison concerning performance using SROCE will be possible and the relative efficiency of investing in Fair for You compared to other possibilities can be properly understood.

1.21 As well as providing Fair for You's own investors with robust evidence of impact, we therefore hope that this report will contribute to the development of a consistent methodology for social investors and other affordable credit providers to use across the sector more generally.

POLICY IMPLICATIONS

1.22 In addition to providing a social value impact assessment and yielding methodological insights for future studies, the report has considerable policy implications.

1.23 At the national level, HM Treasury, the Financial Conduct Authority ('FCA'), Money and Pensions Service and Fair4All Finance have all committed to support an expansion of affordable credit in recent years [6]. We hope the findings in this report will provide

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[6] For example, in May 2020, £65 million of Dormant Assets Funding was released to Fair4All Finance, and its Affordable Credit Scale-Up Programme has the long-term ambition to generate a ten-fold increase in provision.

impetus for these agencies to go even further than currently planned, and to significantly scale up their ambition for the sector. This is particularly needed in the light of the Covid-19 pandemic which is constraining the credit options for many lower income households and requires the affordable credit sector to rethink how it can best serve this market.

1.24 At the local level, our findings also indicate that Fair for You has a considerable, positive impact on the collection of rents, Council Tax, and other household bills, as well as reduces the demand on health services and other forms of local support. Its lending operations are particularly relevant to the wide range of agencies seeking to improve the welfare of children living in low income households. To help Fair for You increase in scale and bring the benefits of its lending to more of these, local agencies including councils, Housing Associations and Primary Care Networks need to actively engage by identifying and referring residents in much greater numbers than at present.

1.25 The detail of any new referral arrangements will need working through. In our view, the eligibility criteria for local welfare and other discretionary schemes providing emergency assistance to low income households needs to 'dovetail' more effectively with the lending risk criteria that is used by Fair for You.

1.26 We propose a guiding principle in this respect: low income, and financially distressed households who do not qualify for grants should be able to obtain access to affordable credit. Conversely, those who do not meet the underwriting criteria of affordable credit lenders, should qualify for grants. There currently exists a considerable gap between these two different systems. As a result, far too many people, including children, are living in homes lacking items that are essential for their health, educational development, and well-being.

1.27 This gap is at risk of increasing further because of the drive towards sustainable business models in the affordable credit sector. With the Covid-19 pandemic exacerbating levels of hardship for many low-income households and driving up child poverty rates [7], action to address this problem is urgently needed.

[7] For an excellent briefing on the impact of the pandemic on Child Poverty see 'Covid-19 Recovery Briefing: child poverty, social security and housing', Children's Society, July 2020.

1.28 We therefore recommend that social investors:

- Establish dedicated funds to subsidise Fair for You's lending to non-profitable customers, and/or
- Reduce the cost of their capital to enable Fair for You to reach further into the market.

1.29 Local government, and other agencies including Housing Associations and utility companies should also consider how they can ensure better use of discretionary funds by underwriting Fair for You's risk as part of any agreed referral procedures involving non-profitable customers.

STRUCTURE OF THIS REPORT

1.30 The remainder of this report is structured as follows:

- **Section 2** presents our main findings in respect of customer demographics, lending patterns and borrowing behaviours. In this section, we also describe the main processes involved in Fair for You's lending and the key challenges it faces.
- **Section 3** details the main findings from our qualitative research, with a focus on identifying the different types of social benefits that have been reported by customers. The section identifies more than twenty different types of immediate benefits and intermediate outcomes, which contribute towards long-term improvements in health and well-being.
- **Section 4** then presents the findings from our customer survey. This is primarily focused on identifying the prevalence of the different types of social benefits across Fair for You's customer base. However, the section also provides considerable insight into the range of challenges faced by low income households who have previously either been reliant on high cost commercial lending or who have otherwise had to go without essential items.
- **Section 5** proceeds to draw the research findings together into a monetised estimate of the social value achieved by Fair for You, and discusses how further work in this field could be improved and developed into a sector-wide approach, and
- **Section 6** provides our conclusions and recommendations, with respect to policy, lending practice, and future research.

2 CUSTOMER DEMOGRAPHICS, LENDING PATTERNS, AND BORROWER BEHAVIOUR

2.1 This section presents the findings from our analysis of customer demographics, lending patterns and borrower behaviour.

2.2 It also describes the main processes involved in Fair for You's lending, and the key challenges that it faces in meeting the needs of low-income households.

2.3 The findings presented in this section are based on an analysis of management information held by Fair for You [8], supplemented by additional insights obtained from the responses to our customer survey.

2.4 Combining these two sources provides for a more complete picture of customer demographics than the use of management information alone. Loan application processes provide Fair for You with a rich dataset including with respect to gender, age, housing and employment status, income levels, and the number of children present in the customer's household [9]. However, they do not provide information with respect to whether the applicant is single or living with a partner (and if so, their partner's employment status), or the presence of long-term health conditions[10]. Data with respect to the latter has been obtained from our customer survey.

KEY CUSTOMER DEMOGRAPHICS

2.5 The mainstay of Fair for You's customer base are women with children, on low incomes, and living in social housing. The headline findings from our analysis are:

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[8] To ensure greater accuracy concerning repeat lending patterns we restricted our analysis to loans taken out before 31st December 2019. There were 59,000 of these, taken out by 27,000 different customers.

[9] The number of children present in the household can be derived from figures provided in the loan application relating to Child Benefit income.

[10] Such information is not essential to determining loan applications, and data protection rules prevent lenders from gathering information above and beyond what is required in this respect. There is also a need to ensure that customer application processes are as streamlined as possible.

- 86% of Fair for You's customers are women, with three quarters of these aged between 25 and 44 years of age[11].

- Over three quarters of customers have children present in the household. On average these households contain 2.3 children, with nearly one third of customer households containing three or more.

- The median monthly net income of customers is approximately £1,500 and 15% of customers have incomes of less than £1,000 per month. Depending on their precise household composition and the level of benefits that they are receiving to help towards housing costs, this typically means customers are concentrated in the second and third quintiles of the income distribution.

- Based on our analysis of the customer survey, 60% of customers are lone parents, and nearly two thirds of these are entirely reliant on benefits for their income.

- Approximately 40% of customer households contain someone in employment, with this splitting evenly between households containing someone working full-time and those containing someone working on a part-time basis[12].

- Three quarters of customers (73%) live in social rented accommodation, and a further 22% are renting in the private sector.

2.6 In addition, the customer survey indicates that a significant proportion of Fair for You's customers contain someone with a long-term health condition or disability:

- Half of all customers taking the survey reported that either they, or someone they lived with (and therefore often children), had a pre-existing long-term medical condition, and this rose to 64% when respondents who either failed to provide an answer or 'preferred not to say' were excluded.

- Over one third (37%) of all customer households also contained someone in receipt of Disability Living Allowance or Personal Independence Payment.

- Nearly one fifth (17%) contained someone claiming Carers Allowance, and the same percentage of households contained someone in receipt of Employment Support Allowance.

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[11] The largest single age group is 25 to 34, which accounts for 40% of all Fair for You's customers.

[12] Over half (51%) of lone parent customers who are working part-time are in receipt of Universal Credit, as are a quarter of those working full time.

2.7 Taken together, the demographic data indicates that although Fair for You's customers are on low incomes, and many would be identified as living in poverty, these incomes are, for the most part, stable. As we report later, this has meant that relatively few customers have experienced a negative income shock because of the current Covid-19 pandemic, and, Fair for You has continued to lend throughout the lockdown. Indeed, Fair for You has experienced a surge in demand over the period since March.

TYPICAL LENDING PATTERN

2.8 Fair for You's lending is directly linked to the purchase of specific products, with customers selecting these from an 'on-line high street'; and then applying for a loan to finance their purchases. Once approved, and a loan agreement is in place, then the goods are delivered to customers directly from the manufacturers. These include Hotpoint, Whirlpool and Indesit whose commitment to delivering a high-quality service to Fair for You's customers throughout the UK is highly valued.

2.9 Most of the initial loans taken out by customers are used to support the purchase of washing machines and dryers (37.6%), fridge-freezers (13.5%), cookers (12.9%) and beds and mattresses (10.5%). Taken together these 'core products' account for three quarters of initial loans.

2.10 The remaining 25% is mainly accounted for by items relating to children (e.g. pushchairs, cots, and bunk beds, 9%), dishwashers and vacuum cleaners (5.5%) and by household furniture (5%).

2.11 In terms of value, initial loans are typically between £200 and £400 (see figure 1, below). However, loan values are higher than this in about one fifth of cases, and the maximum amount recorded is £952. Conversely, 10% of initial loans are for less than £200.

Figure 1: Percentages of all initial loans made, by value

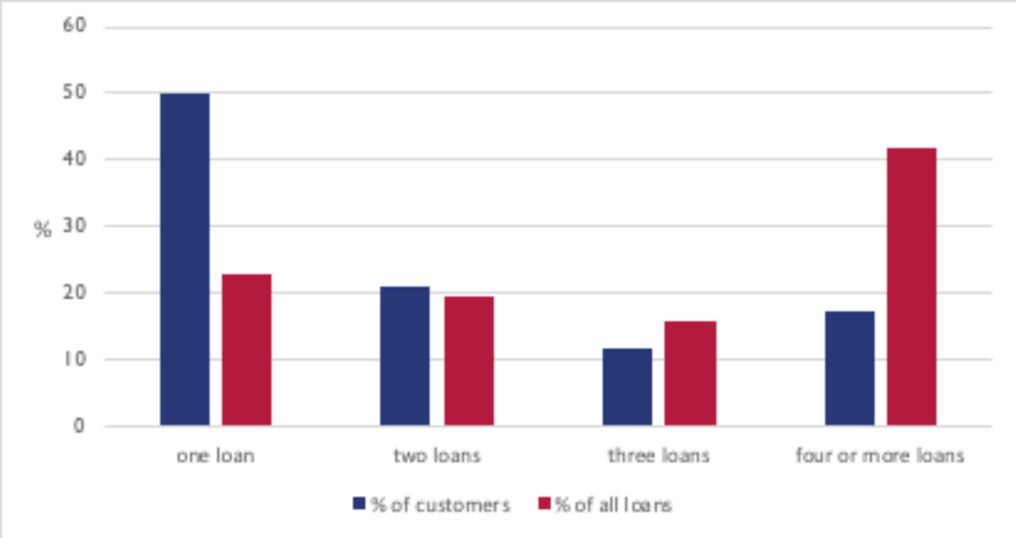
2.12 Having obtained an initial loan, customers can gain access to a much wider range of products, including electrical items such as TVs and laptops, but also to UK family holidays and short breaks.

2.13 Access to this wider range is provided through a 'Good Payers Club': which is available to customers after six months provided they have either paid off their first loan in full or have made all their loan payments on time. Membership of the club is suspended if an account falls into arrears, but it can be reactivated once payments are back on track. Whether or not a customer is a member of the Good Payer's Club, Fair for You never 'relends' to people in arrears [13].

2.14 There is significant repeat use of Fair for You. On average each customer takes out just over two loans, but a fifth had taken out two, and just under one third of customers had taken out at least three (figure 2, below). Taken together, customers taking out more three or more loans account for 58% of lending by value.

[13] In contrast to many commercial high cost lenders: see for example the recent FCA thematic review, 'Relending by high-cost lenders', available at https://www.fca.org.uk/publications/multi-firm-reviews/relending-high-cost-lenders

Figure 2: Number of loans taken out, as percentages of customers and all loans



2.15 In terms of the products bought by returning customers, the four 'core products' still accounted for 40% of repeat business, but these were supplemented by sales of electrical items such as TV's, smartphones, computers and tablets, and gaming consoles and computers, which constituted 25%. There was also increased borrowing to support the purchase of furniture, and to make use of the access provided by the Good Payer's Club to Dunelm (7%), Inspire Travel (2%) and Carpetright (1.2%)[14].

2.16 The distribution of loan values for returning customers shifts slightly to the right compared to initial loans (figure 3, below): although the typical loan value remains between £200 and £400, a higher proportion of returning customers obtained loans in excess of this (32% compared to 19%), and the maximum value observed increased to £1,426. However, as for initial loans, around one in ten returning customers obtained loans of less than £200 in value.

[14] In these respects, Fair for You's loans provide its customers with access to the full range of products provided by these retailers (i.e for mattresses and bedding, holidays, and carpets and flooring).

Figure 3: Distribution of repeat loan values

2.17 Because the value of individual loans are similar regardless of whether they are initial loans or are loans made to returning customers, the overall distribution of lending by value does not differ significantly from the distribution of loan numbers presented in figure 2, above. Fundamentally, around three quarters of Fair for You's lending by value is provided to returning customers.

2.18 This high level of repeat lending reflects a successful strategy to build customer loyalty, which includes understanding and supporting customers who experience difficulties in repaying their loans. As we report in further detail in sections three and four, customers who experienced payment problems greatly appreciated the patience afforded to them to enable them to get back on plan, during which time Fair for You does not impose any additional fees or charges.

THE CHALLENGES OF LENDING TO LOW-INCOME CUSTOMERS

2.19 It should be noted that there are inherent tensions between the need to ensure that loans are affordable for customers, and the drive towards a sustainable business model. Some lower value loans are not profitable, especially in the case of new customers. Rather than encourage these customers to take out higher value loans at the margins of their affordability, Fair for You builds value by lending at a loss on some initial loans, and by building loyalty and streamlining the repeat lending process.

2.20 There are obviously limits to this approach, and it is not currently possible for Fair for You to provide loans to people who fall within higher-risk groups (e.g. younger, and very poor households) even though, as this report proceeds to detail this could have very beneficial impacts. For example, around 80% of loan applications for washing machines are currently being declined.

2.21 Too great a pressure towards profitability could also force Fair for You to move away from making small value loans available to its customers altogether, or to raise its interest rates for these. Fair for You recognises that neither of these options would benefit its customer base and has instead sought to find more innovative ways of meeting need.

2.22 For example, Fair for You identified that many of its customers wanted relatively small loans for items such as vacuum cleaners and tablets. The cost of providing many of these[15] would, if passed onto the customer, lead to very high prices.

2.23 Fair for You has therefore developed a structured revolving credit facility, with a limit of £350, whereby the customer is provided with a prepaid Mastercard which enables them to purchase items from high street and online retailers, including Argos. Customers can top up the amount on their cards, provided they have repaid one third of the initial loan amount and are up to date with repayments.

2.24 Fair for You has also recently developed a Food Club, which it will deliver across the UK in partnership with Iceland (box 1, below).

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[15] Including in respect of free delivery and accidental damage insurance.

BOX 1: FAIR FOR YOU'S FOOD CLUB: HELPING FAMILIES AVOID FOOD POVERTY IN THE SCHOOL HOLIDAYS

With support from Iceland, Nesta, Fair4all Finance and the Esmee Fairbairn Foundation, Fair for You's Food Club provides help for low income households to feed their families during the school holiday periods.

Market research indicates that small loans during school holiday periods will help many to reduce food instability and grocery costs, improve the nutritional content of children's diets, and help to repair credit histories.

The Food Club provides customers with a structured revolving facility involving a prepaid Mastercard [16]. Customers pay in weekly when they can afford it during term times, but with no penalty in any weeks when they can't. During each school holiday period the Food Club member is then able to draw down up to £50 for a top up grocery shop at Iceland.

By linking a structured but flexible credit solution to a pre-paid card Fair for You is driving out the cost of delivering what would otherwise be extremely unprofitable, yet vital, very small loans. In its absence, many parents facing food poverty would inevitably have to resort to borrowing at exceptionally high costs from payday and door to door lenders, and risk becoming trapped by these in a relationship of ongoing 'credit dependency'[17].

Although the product is a highly effective solution, such small loans targeted to people who would otherwise struggle to obtain affordable credit, is not commercially viable. At best, the product is a 'loss leader': an entry product which may result in unprofitable new customers progressing to take out more profitable loans later.

Whilst Fair for You does not require every individual product to be profitable, and is committed to serving a wider customer base, it is not able to provide loss making solutions on an ongoing basis. In the case of the Food Club, it is therefore seeking investment from local authorities and social landlords to expand the scheme. These agencies should see a return on investment because many of the Food Club's members would otherwise need to apply for emergency grants and assistance and use food banks on a regular basis during school holidays, or are likely to fall into arrears with rent or Council Tax.

[16] The prepaid card is provided by EML - https://www.emlpayments.com/

[17] This description of a 'credit dependent' relationship between low income borrowers and high cost lenders was first used by McCartney, I., & Gibbons, D. (2008). 'Protecting low income borrowers in the credit crisis', but has also recently been used by the FCA, see footnote 13, above.

2.25 Finally, although the establishment of Fair4All Finance has rightly been considered a 'game changer' in terms of investment into the affordable credit sector, there remain significant barriers for lenders to raise alternative forms of investment in this space. These arise due to restrictions in the Social Investment Tax Relief scheme (which would otherwise encourage philanthropic investment) and the Basel III accord's capital adequacy requirements for banks, which prevent all but the best capitalised banks from investing.

SEGMENTATION ANALYSIS

2.26 Whilst the above provides a general picture of Fair for You's customers, lending patterns and the challenges faced in meeting customer needs, we further explored the loan application data to establish whether specific demographic factors influenced loan values, product choice or repeat borrowing behaviours. This then informed our approach to the weighting of responses to our customer survey.

LOAN VALUES AND PRODUCT CHOICE

2.27 Regression analysis using management information did not indicate any significant correlation between loan values and demographic factors such as gender, age, income levels, or the presence, or number, of children in the household.

2.28 Rather, we found the variation in loan values reflects the fact that customers use Fair for You to purchase a range of household goods. Different types of goods come at different prices, and there are also variations in prices within product types due to the choice provided.

2.29 For example, table 1, below, provides details of the range of the cost of each of Fair for You's four core products.

Table 1: Range of core product costs

	Minimum cost	Average cost	Maximum cost
Washing machine/ dryers	£106.60	£303.77	£982.99
Fridge-freezers	£145.00	£334.19	£1,059.38
Cookers-ovens	£85.99	£400.76	£1,426.00
Beds/ Mattresses	£82.99	£352.84	£994.98

2.30 As can be seen, the lower end cost of all four of the main products is clustered around £100; the mid-point between £300 and £400, and higher end at over £900. Given the average loan value is between £200 and £400 this indicates that customers generally choose products which are in the 'low to mid-range' of what is available to them.

2.31 Some demographic factors may influence these choices. For example, in respect of loans for washing machines and dryers, we found that customers aged 25 to 34 were most likely to purchase these from the higher cost end of the range. This may reflect the fact that these customers were not only more likely to have children [18], but also more likely than any other age range to have three or more children present in the household. For these households, the quality of the product being bought was therefore likely to be a major consideration.

2.32 However, the nature of the relationship between product choice and demographics is complex, as lending policies also have a role to play. For example, Fair for You will decline a loan application for higher cost products if these appear to be unaffordable for customers, and will encourage people in this position to choose products at a cost which is more realistic given their circumstances. Higher value loans are therefore only likely to be provided to households with larger, and more stable incomes.

2.33 We were better able to identify possible customer segments related to choices *between different types of products* rather than within product ranges. In this respect, our analysis indicates that:

- Customers aged under 35 were slightly more likely to purchase beds and mattresses and slightly less likely to purchase cookers and washing machines. This position was reversed for 45 to 54-year olds; and
- Customers aged over 55 years were more likely to buy fridge-freezers and cookers rather than beds and mattresses.

[18] 90% of loans made to this age group, were made to households with children and 48% of these loans were made to households with three or more children present.

2.34 We also found some variations in purchasing preferences when looking at the number of children present in the household.

- Households without children were over ten percent more likely to purchase washing machines, cookers, and fridge freezers than their overall numbers suggested. Looking across the entire product range, these households were also more likely to purchase microwaves, electric fires, and carpets than households containing children.

- Households containing one or two children generally purchased the core products in line with their numbers. However, as would be expected, they were also more likely to purchase a range of additional products specifically relating to their children. This included children's beds, play equipment, baby bouncers and pushchairs. They were also slightly more likely than other household types to purchase dining tables, bookcases, and other furniture.

- Larger families appeared less likely to purchase the core products and furniture, and much more likely to purchase items relating to their children. This included cribs and cots and items relating to very young children. Families with four or more children were also much more likely to purchase dishwashers than other households.

2.35 As regards information from the customer survey, we also found that respondents from households containing someone with a long-term health condition were slightly more likely to purchase bedding, TVs, and other electrical items than their overall numbers suggested.

HOW REPRESENTATIVE IS THE CUSTOMER SURVEY?

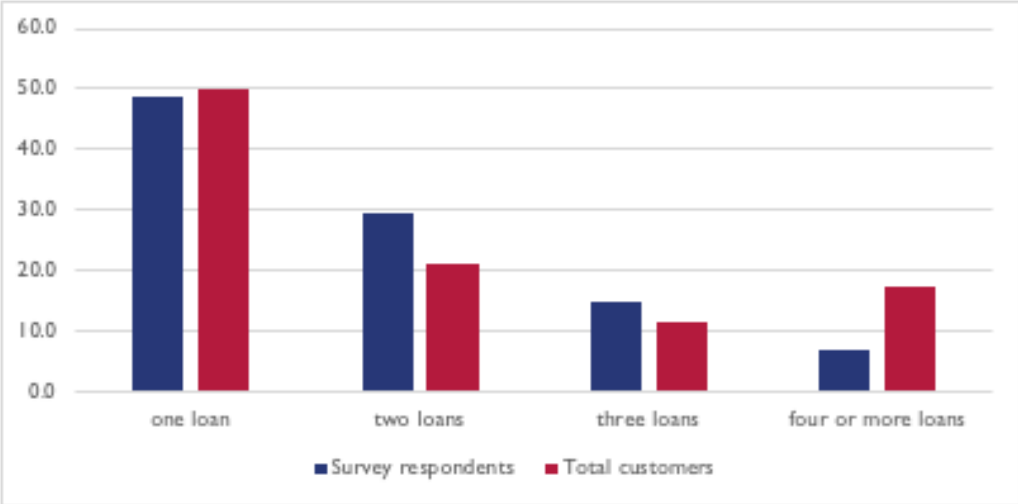
2.36 Whilst we were able to match survey respondents to their loan application data, the lack of any particularly strong relationship between demographic factors, loan values and repeat borrowing patterns led us to place greater emphasis on those factors which could have an impact on the social value that was being created.

2.37 These factors are the number of loans taken out, and the types of product purchased. For example, customers taking out several loans over time could reasonably be expected to report greater cash savings (compared to using high cost lenders) than those with only one. And in respect of product types, the social benefits arising from obtaining a cooker are very different to those arising from the purchase of a TV or electrical item. In this respect it should be noted that *how credit is used by customers* is the key determinant of whether, and how much, social benefit is created[19].

2.38 Assessing the responses to the survey in respect of repeat borrowing (figure 4, below), we found that these were slightly biased towards customers who had taken out two or three loans, and that those receiving four or more were significantly under-represented (7% of respondents compared to 17% of all customers).

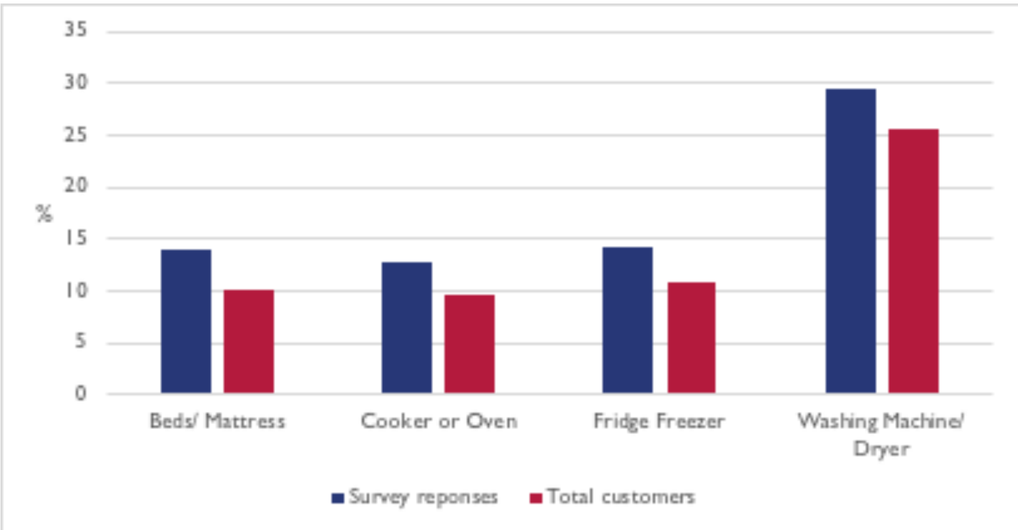
[19] This is in accordance with theories concerning the 'productive use of credit' developed Prof. Udo Reifner. The requirement for credit to be productive was subsequently incorporated into the 'principles of responsible credit' (principle 3a) adopted by the European Coalition for Responsible Credit in 2005."

Figure 4: Survey respondents and total customers by number of loans



2.39 With respect to specific products purchased, we found that survey respondents were slightly more likely than the overall customer base to have purchased the core products (figure 5, below). For example, 14% of survey respondents had purchased beds or mattresses compared to 10% of Fair for You's overall customer base, and with respect to washing machines and dryers the figures are 29% and 26% respectively.

Figure 5: Types of product purchased, survey responses and total customer base



2.40 We have therefore weighted the responses from the survey to reflect the variation in the numbers of loans taken out, and have taken care when assessing social benefits (which are particularly 'product sensitive') to relate the findings from the survey only to that proportion of overall customers which have purchased these.

3 THE SOCIAL BENEFITS OF FAIR FOR YOU

3.1 This section now details the main findings from new in-depth qualitative interviews with ten customers who had taken loans out within the past year.

3.2 These were used to explore:

- Why people had chosen to borrow from Fair for You, including in respect of their access to and experience of other lenders, and sources of borrowing such as from family and friends.
- What their experience of borrowing from Fair for You was like.
- What immediate differences borrowing from Fair for You had made to them and their families, and
- What longer term impacts this has had.

3.3 In addition to these new interviews, we also reviewed the findings from twenty previous interviews with customers, conducted as part of our previous work for Fair for You in 2016/17.

3.4 Due to their exploratory nature, the qualitative interviews provided considerable insight into the breadth of social benefits that customers themselves felt had *resulted directly*[20] from their use of Fair for You.

3.5 In total, the qualitative research identified more than twenty types of immediate, positive, outcomes. These fell into two main categories:

- 'Product specific' benefits (i.e. benefits from the way that the credit was used to access different household items), and
- 'Financial benefits'. These arise chiefly from the money that customers have saved compared to what they would have paid had they borrowed from other sources

[20] In this respect, the interviews ensured that customers focused on 'things that had changed because of their use of Fair for You as opposed to 'things that had changed since they had started using Fair for You'. This use of 'because of' rather than 'since' was then continued in the customer survey.

available to them. However, in addition to the financial savings achieved, Fair for You's operational processes have also contributed to many customers having greater control over their finances.

3.6 We now report on these in turn.

PRODUCT SPECIFIC BENEFITS

3.7 As would be expected, given that they make up the core products obtained through Fair for You, the customers we spoke to mainly pointed to the benefits associated with obtaining beds and mattresses, cookers and ovens, fridge-freezers and washing machines and dryers.

3.8 In these respects, customers often focused on the positive impacts that obtaining these items had on the health (both physical and mental) of themselves and their families.

3.9 For example, one customer told us how buying a mattress through Fair for You had helped her recover following a series of operations on her spine:

> "I'd just had three operations on my spine, and I needed a decent mattress. My surgeon told me and my partner to look into getting a decent mattress. But there was no way we could afford the prices, £500…£600.
>
> When I saw that Fair for You provided loans for Dunelm, where I could get a decent mattress, I thought 'Oh my God, this is a big, big thing for me', it was a lifesaver. Without it, my health would have deteriorated. I don't know what I would have done to be honest, it would've caused major problems for my mental health too".

3.10 Another told us how obtaining a cooker had prevented her health condition from worsening:

> "My health isn't great. I've got high blood pressure, and if I get stressed too much it affects that. I got a cooker from Fair for You, and without that, if I had to rely on takeaways, it would have impacted on my weight and health."

3.11 Whilst another customer pointed out that her cooker was essential, as she had a child with special dietary requirements:

"One of my sons only eats certain food and so obviously if I couldn't cook that food for him, he'd be affected."

3.12 As well as improving health, several customers pointed out how obtaining their products had also saved them money. For example, one customer told us about the impact of obtaining a fridge-freezer:

"I wasn't able to store food and couldn't buy fresh meat or whatever. It would all be in tins or packets…and I wasn't able to buy shopping in bulk. I was spending more money too".

3.13 Others pointed to the increased cost of buying takeaway food in the absence of cookers, and financial savings were also apparent for customers purchasing washing machines and dryers:

"Apart from my brother, I haven't got any family, and my brother lives more than twenty miles away from me. So, I would have had to use a laundrette, and then it is costly."

3.14 This customer also identified that, without her tumble dryer, she would have had to dry her children's clothes inside the home when the weather was bad and that this would have increased her heating costs. Similarly, another customer told us that the additional cost of this was stressful:

"It's a lot of stress to be honest, you know trying to dry the clothes, trying to put them on radiators. It would cost me more with the gas bill putting the radiators on."

3.15 She also pointed out that this would have impacted on the décor and overall feel of her home:

"I think if I didn't have a dryer, and you know trying to get all my husband's work clothes dried and even maybe the smell of them putting them on the radiators, would be bad. We had lining paper on the walls at the time, so that might lift, or it could leave marks on the wall, so that was just not an option to use the radiators."

3.16 For customers with additional caring responsibilities, the convenience of being able to wash and dry clothes in the home was also important:

> "My daughter has autism so there was no way I could get down all the flights of stairs from the flat, hang my washing out, and look after her."

3.17 Whilst these benefits (to health, finances, and with respect to caring for children), were most apparent in relation to the core product types, they could also be found in respect of many others. Additional benefits, including in respect of child education and welfare also emerged.

3.18 For example, one forty-year-old mother with two children told us that living without carpets in their house had created significant health problems:

> "When I moved in here in November, I didn't have any carpets, and it was dusty. It was affecting my asthma. I had to keep going down to the doctors for inhalers, and I ended up in hospital several times."

3.19 Another customer told us that her daughter's eating habits had improved since the family obtained a dining table and chairs:

> "I've noticed my little girl eats more now she can sit up at the table with all of us, because she sees all of us eating: otherwise we were all just on the sofa or on the floor and she's picking at her food or she just won't eat it."

3.20 Being able to buy a dining table and chairs had also meant that her son was able to do his schoolwork:

> "Without Fair for You, I probably wouldn't have dining table and chairs and it would be a question between sitting on the sofa or the floor to eat. And obviously, with this lockdown as well my son wouldn't have anywhere to do his schoolwork, because at the minute the dining table has been taken over by schoolwork."

3.21 In the context of the Covid-19 pandemic, another customer – a member of the Good Payer's Club - told us how she had used Fair for You to help home-school her son:

> "I used Fair for You to obtain an Argos gift card. It was originally meant for my little boy's birthday, but because lockdown happened, we ended up using it for art, creative bits, printer paper, all the sort of stuff they need for home schooling."

3.22 Finally, many customers reported a reduction in stress and anxiety regardless of the types of products they had obtained. For example, one customer told us how her stress reduced after she had 'treated' herself to a dishwasher:

> "I was working 40 hours a week, and I was also doing my distance courses at the time. It just took the stress off everyday life. I was thinking, 'I've got to come home, and I've got to cook and do all the dishes', but now instead of doing all the dishes I can just turn it on."

3.23 Drawing all the information from our qualitative research together, we identified more than twenty different types of immediate social benefits arising as a direct result of customers gaining access to household items. These also contributed to a further set of intermediate outcomes, such as reductions in stress and anxiety, improvements in self-esteem, and confidence as a parent, and these in turn feed into potential long-term positive impacts for overall health and well-being, work, relationships, and overall life satisfaction (see table 2, below).

Table 2: Observed product specific immediate benefits, intermediate outcomes, and potential long-term impacts

Product/service	Immediate benefits	Intermediate outcomes	Potential long-term impacts
Beds, mattresses, and bedding	Able to sleep better Improved pain management for those with physical conditions Feeling better as a parent	Improved mood and satisfaction Less stress, anxiety, and depression	Health and wellbeing of self and household members including children has improved Better able to find work or concentrate at work Family relationships have improved People have improved confidence, and self-esteem, social connections, and life satisfaction
Cookers, ovens and microwaves	Able to cook more healthy food Able to spend less time cooking (microwave) Better able to cater for household members with special dietary requirements Spending less money on food	Eating more healthily More time to spend on other activities More time to spend with family More time to self	
Fridges and freezers	Able to buy in bulk Reduced time shopping Able to cook in bulk and freeze leftovers (reduced food waste) Spending less money on food Able to store medication properly		
Washers/ Dryers	Saving time through not having to use laundrette or rely on family and friends Clothes are better taken care of Spending less money on laundry	More time to spend on other activities More time to spend with family More time to self	
Furniture, e.g. dining table, sofa	Being able to eat around the table Children have a place to do schoolwork Being about to sit together as a family Home looks and feels better Reducing pain from bad furniture	Feeling more able to invite people to home and socialise with friends	
Baby and children's equipment	Ability to go out with and entertain young children Ability to get on with day to day tasks and living	Improved confidence as a parent Adults and children able to sleep better	
Electrical items	Opportunities for leisure, education, and relaxation	Improved confidence as a parent More opportunities for learning and activities	

GOING WITHOUT ITEMS OR BORROWING FROM OTHER SOURCES?

3.24 The question arises as to whether customers would have gone without these items entirely if they had not been able to access Fair for You, or if they would have borrowed from other sources to finance their purchase. Customers could also have an option of buying second-hand items in some cases.

3.25 The decision-making processes concerning these options are complex and highly individualised, particularly depending on the level of access that customers have to other credit options and their personal experiences of, for example, the different borrowers available to them and/or of the quality of second-hand items that they had previously bought.

3.26 For example, one customer told us about her decision-making process in respect of a sofa she had bought through Fair for You:

Customer: "I recently moved in, and I just bought a second-hand one but it was the most uncomfortable one ever, so I was like, 'We're not having any more second-hand ones, we're having a brand new one' and I saw one on Fair for You that I really liked, so that was that."

Interviewer: "Thinking about what you might have done if you hadn't been able to get a loan from Fair for You. If you had gone to [that other lender you previously borrowed from] to buy the sofa, how do you think that would've affected you?"

"I literally couldn't afford it. I would have had to cut down on food. When I was with them before I had to cut down on food, and couldn't pay my bills, I was just paying all my money out to [that other lender] basically."

Interviewer: "And if you had to go without the sofa, how long do you think you would have had to go without, before you'd been able to save up and buy one?"

Customer: "It would have taken me ages to save. I do save towards Christmas, so I could've saved up some money, but I think it would probably have taken me a couple of years."

Interviewer: "That's quite a long time to go without a sofa or to sit on a very uncomfortable sofa. What impact would that have had on you?"

Customer:" It would have impacted on my health. I suffer from asthma, and from really bad eczema too. When I get anxious, they can really flare up, and obviously it would have been a worry for me really, because I'd just be thinking about how I'm going to afford to get one."

3.27 In the absence of access to Fair for You, many customers therefore face an incredibly difficult choice between borrowing from very high cost credit lenders, buying second-hand items (which several customers felt would be substandard or could break down) or completely going without items for lengthy periods. In the above case, the customer's choice was effectively between cutting back on food and falling into arrears with bills (with possible longer-term negative effects) or experiencing an immediate deterioration in her health. In this sense, using high cost credit is often only a means of *deferring* negative impacts rather than avoiding them altogether.

FINANCIAL BENEFITS

3.28 As with the product specific benefits set out above, customers also identified a broad range of positive *financial* outcomes because of using Fair for You.

3.29 The immediate financial benefits identified by customers arose due to a combination of three aspects of Fair for You's lending operations:

- Customers can choose their preferred payment amounts and timescales.
- The overall cost of borrowing from Fair for You is significantly lower than other available alternatives, and
- Fair for You provides the flexibility and support they need to deal with changed circumstances and payment problems.

3.30 We now provide further details of these aspects together with examples illustrating the benefits of these, before turning to discussion of their intermediate and longer-term impacts.

CHOOSING REPAYMENT AMOUNTS AND TIMESCALES

3.31 Fair for You's loan application processes encourages customers to consider how much they can afford to borrow and provides them with the opportunity to set the duration of the loan to suit their circumstances.

3.32 The platform enables customers to use a 'slider' to select loan repayment durations of between 12 and 78 weeks for most loans (although loans under £350 must be repaid within 52 weeks). Borrowers are encouraged to select lower loan durations to reduce the overall level of interest that they pay, provided that the repayments are affordable to them.

3.33 Customers can also choose whether to pay weekly, fortnightly, 4-weekly, or monthly to match their income patterns.

3.34 Several of the customers we spoke to particularly appreciated these aspects of the application process. For example, one told us:

> "What I personally like…you can go on to the website and choose how many weeks or months you want to pay over. With Fair for You, you can look at what you can afford first, and then pick products which match with that."

3.35 Another indicated that this aspect of Fair for You's lending was the main reason she chose to borrow from them:

> **Interviewer:** "Why did you choose Fair for You to buy your tumble dryer?"

> **Customer:** "Because it gave an option of how long to pay it off and how much interest you pay, and sort of when you can pay it as well so you could pay it weekly, monthly, two weekly, however is easiest."

3.36 Several customers also pointed out that their alternative options were very limited. This was due to a combination of their low incomes and poor credit scores caused by past repayment problems. For some, this meant that their only alternative to Fair for You would be to borrow from family or friends.

3.37 Whilst this help was appreciated, and no interest would have been charged, one customer told us that "I don't like asking them for help" and that it would impact negatively on her self-esteem.

3.38 Borrowing from family would also have put her under pressure:

> "As much as they would have given me time to repay them, it would've meant bigger instalments."

3.39 And although borrowing from family and friends could help prevent a short-term cash flow crisis, the finances of other people in these networks were also constrained. This meant that it often wasn't possible to borrow enough money to obtain higher cost items:

> "If I was getting paid on, let's say the Monday, and I saw my mum at the weekend and said there was something I needed, my mum might say to me, 'Oh well, I'll lend you some money for that until you get paid', but nothing to the amount you'd need for a fridge freezer or something like that."

> "Yeah I have family members [who could help] but they couldn't lend me £400 for a cooker."

3.40 Finally, one customer told us that loans from family and friends could sometimes be called in at short notice, and failure to repay would "cause arguments" and create a strain on relationships.

OVERALL COST OF BORROWING

3.41 For most customers, however, the main reason for an improvement in their financial circumstances was because of the much cheaper cost of borrowing from Fair for You compared to the other lenders available to them [21].

3.42 In this respect, customers mainly compared the cost of borrowing from Fair for You with rent-to-own stores such as BrightHouse and PerfectHome, or with door to door lenders, like Provident.

3.43 Some customers felt they had a good knowledge of the price differences involved and said they had actively compared the costs of borrowing from Fair for You with other lenders they had previously used. For example, as one customer who had previously used the rent-to-own lender told us:

[21] It should be noted that customers also liked the quality of the items, which were perceived as 'good value for money'.

> "Fair for You are a lot cheaper. I think that tumble dryer would probably have cost me three times as much with [the other lender]."

3.44 As well as appreciating the headline overall difference in costs, this customer identified that being able to make small overpayments with Fair for You helped to reduce the overall amount of interest that they paid:

> "They give you the option to round your payments up to the next five pounds, and if you take that the interest will come down because you're paying off more."

3.45 Other customers compared the cost of buying furniture, but with equal emphasis on both the overall cost and the amount of the instalments:

> "I'm a single parent and I'm on benefits and I just couldn't afford to pay for a brand-new settee. I probably would have gone to [another lender], even though I'd been with them before, and I hadn't really got on with them. But I'd have been paying £20 or £30 per week with [the other lender] and it was only £30 per month with Fair for You."

> "Fair for You are brilliant… Their repayments are lower weekly, and also the amounts that you have to pay back overall."

3.46 One customer, who used to work for a high cost lender, stated:

> "Summing up what I've got from Fair for You and comparing it to [the other lender I used to work for], I'd say Fair for You is probably half the cost".

3.47 Unsurprisingly, those customers who had taken out several loans with Fair for You, identified that they had saved a very considerable amount of money. For example, one long-term customer who had used Fair for You to buy a fridge-freezer, mattress, cooker, and an Xbox for her son, stated she had saved "thousands" over the past four years.

3.48 This had very positive long-term benefits:

> **Interviewer:** "Okay, so how has saving that money helped you overall, what do you think you've been able to do that you might not otherwise?"

Customer: "In the long run, doing a massive shop every month, decorating, going out with the family in the car, putting petrol in the car, quite a bit really, buying the kids' stuff. I have to admit before when I was in that funk with [another lender], we were just barely getting through, getting food shopping but it was very minimal, whereas now we have a bigger option to eat what we want, when we want. That sort of thing."

FLEXIBILITY TO DEAL WITH CHANGING CIRCUMSTANCES

3.49 As well as providing the opportunity for people to overpay, Fair for You also takes a very flexible and patient approach when people experience payment difficulties.

3.50 For example, one customer told us that she contacted Fair for You when her husband lost his job:

"I think I contacted them by email, and they agreed to reduce the payments for a while and then agreed to review it after so long. There was no, "Can you not pay this amount instead?" There was no trying to force you to pay more than you could afford, it was very, "If this is what you can afford, then you can pay that and we'll review it in a little while later".

3.51 When asked what difference this had made, the customer told us:

"A lot, because at the time, when my husband lost his job, we were losing out on over £1000 a month, and I think the payments were reduced by half, so that half helped quite a lot with other bills and shopping."

3.52 After her husband found another job, the customer proactively contacted Fair for You and asked to resume her payments and she has since got 'back on track'.

3.53 In contrast, some customers told us that they had experienced rent-to-own companies adding on default charges and even repossessing items when they had got into payment difficulties.

INTERMEDIATE AND LONGER-TERM IMPACTS

3.54 The immediate benefits of borrowing from Fair for You proceed to manifest themselves in a variety of intermediate and longer-term positive outcomes, with customers placing considerable emphasis on how they have gained greater control over their finances.

3.55 Where parents are concerned, these have also been able to do more to support their children's well-being.

3.56 For example, one customer told us that, if she had still been using other, higher cost, lenders she would have struggled to feed her sons properly:

> "I've got two sons that live with me, and obviously I wouldn't have been able to give them as much food. We would have had to ration our food and they wouldn't have been able to have anything special. I would have had to ration on my son's birthdays and things like that, I couldn't buy them what they wanted."

3.57 She also told us that borrowing from other lenders had led to rent arrears and the threat of eviction:

> **Customer:** "We were even getting evicted from our house at one time cause I just couldn't afford to pay the rent, and it was a worry then because obviously I've got the two boys and I'm like, 'I don't want to be homeless'."

> **Interviewer:** "Would you say that was related to having to pay so much to [the other lender]?"

> **Customer:** "Definitely, because I just couldn't afford to pay it, and they kept coming banging on my door saying, 'Look you're going to be evicted', and it was definitely because of [the other lender], yeah."

3.58 However, because of the money she had saved by using Fair for You, she had been able to get out of debt and was now able to pay her bills:

> "I've paid off the bills that I owed, and I owed quite a lot of bills. I've managed to pay them off now, so I haven't got to keep thinking, 'Oh it'll be the bailiffs coming to my door',

> Because before Fair for You, it was like that. I'd be getting letters off people that I owed. It was a bit of a vicious circle really, I was going to Provident, and I was having loans, to pay off loans. You know what I mean, I was borrowing off Peter to pay Paul. I was borrowing from Provident to pay other lenders, and I was trying to pay the other bills, and then trying to pay Provident, and they were knocking on my door and it just got to the point where it all broke down."

3.59 Living in debt had also resulted in her losing sleep and concentration at work for fear that the bailiffs or debt collectors would call when her sons were back from school:

> "Obviously, I wasn't sleeping as well, and then when I was going to work, it was on my mind. I used to say to my boys, 'Don't answer the door to anybody because you don't know who is knocking on the door', whereas now I can go to work and I know that the boys are safe and I haven't got to worry about people coming to the door."

3.60 As with this customer, previous high cost credit use was a major cause of stress for many of the others we spoke to, and parents often also expressed regret at not being able to give their children things that other households provided and which in some cases they felt were essential to their well-being.

3.61 However, because of transitioning to Fair for You several customers told us that they were now in much greater control of their household finances:

> "I can pay everything now. I can pay all my bills, which before I could never do. it's a weight off your shoulders really because I pay all the bills off and I haven't got to worry about them coming in."

3.62 One of the customers we spoke to identified that Fair for You's lending policies helped with this, by making sure that they didn't take out more credit than they could afford to repay:

> "The other good thing about Fair for You is they never let you take more than three loans out at a time, they sort of have this rule where you have to have paid off at least a third of your last loan with them before you can get another one, so they always make sure that you can afford it."

3.63 As a result, there had been a considerable reduction in money worries, stress and anxiety:

> "Without Fair for You, I would have been in more debt and then I would definitely have been more stressed out."

3.64 For some parents, their improved financial position increased their self-esteem and led to better family relationships. As one customer told us:

> "My relationship with the kids has improved. If they said, 'Can we go to the cinema this month?' or whatever it might be, I used to always be saying to them, 'No, we can't, because I haven't got the money'. That's not a nice thing to say to your kids. So, having the extra money; that's helped a lot as I'm able to spend more on them."

3.65 And others told us:

> "Fair for You has definitely helped… for myself with my money worries and then for my children's health and wellbeing, their clean clothes and extra food and stuff so yeah, definitely."

> "We've been able to go on holiday the last few years. I'm able to buy the children more things that they need, clothes wise, trainers wise. I haven't struggled to get their school uniforms together. I haven't had to borrow any money for that."

3.66 Finally, two customers told us that because of saving money by using Fair for You, they had been able to improve the quality of her family's diets:

> "It's allowed me to buy more fresh meat and vegetables, instead of filling up freezers full of nuggets and chips and dippers and burgers and stuff".

> "We have been buying healthy food lately. I can buy fresh fruit and things like that which I could never buy my kids before."

3.67 The full set of immediate financial benefits, together with their intermediate outcomes and possible long-term impacts are now set out in table 3, below.

Table 3: Financial outcomes and impacts

Fair for You lending practices	Immediate benefits	Intermediate outcomes	Potential long-term impacts
Customer able to choose payment amounts and timescales Overall cost of borrowing lower Flexibility to deal with changing circumstances (including ability to overpay)	Not needing to borrow from family and friends Not needing to borrow from high cost lenders Payments are manageable Improved ability to keep up with bills and credit commitments Better able to pay for essentials, including food	Less stressed, anxious, or depressed Increased confidence managing money Better able to plan for the future Greater control over finances Children able to take advantage of more opportunities and activities Families spend more time together Reduction in problem debt	Health and wellbeing of self and household members including children has improved Better able to find work or concentrate at work Family relationships have improved People have improved confidence, and self-esteem, social connections, and life satisfaction

3.68 Taken together, the benefits of Fair for You's lending built considerable customer loyalty. When asked what they would do if they needed another item for their home, eight of the ten customers we spoke to told us[22]: "I would definitely get it from Fair for You because I really like them".

[22] The remaining two customers told us "I would consider getting it from Fair for You but would also check my other options."

4 THE CUSTOMER SURVEY

4.1 The customer survey was sent to 27,000 Fair for You customers who had received loans prior to 31st December 2019, and we received 3,751 responses (a response rate of 14%). As indicated in section 2, above, we have weighted the responses to the survey to fit the overall customer base.

4.2 The design of the customer survey was informed by the analytical frameworks drawn from the qualitative research phase and focused on identifying the *prevalence* of the different types of benefits identified in those.

4.3 However, because of the extremely broad range of benefits identified in the qualitative phase, and the inevitable trade-off between survey length and completion rates, it was not possible to include questions covering the full range of social benefits.

4.4 We therefore focused the survey on the following key issues:

- The customer's prior experience of borrowing from other sources, and how their experience of Fair for You compared to this.
- If the customer had not been able to access Fair for You, whether they would have had to go without items, or whether they would have borrowed from other sources.
- If the customer would have gone without the items, what the impacts of this would have been on their finances, health, children's education and welfare, relationships with family and friends, and the customer's ability to find or sustain employment.
- Regardless of whether the customer would have gone without or borrowed from other lenders, we also asked questions to determine the extent to which borrowing from Fair for You had helped its customers:
  - *Financially*, by transitioning borrowers away from high cost lenders, helping them to meet other household bills and commitments, put money aside as savings, buy things for children in the household that they couldn't have previously afforded, and improve credit scores, and
  - *More generally*, by reducing stress, and anxiety, improving health, parental confidence, the way people felt about their homes, and overall satisfaction with daily life.

4.5 Although primarily used to gather quantitative information concerning these issues, the survey also asked customers to tell us "in their own words" how Fair for You had improved the health of themselves or the people they lived with. We received 1,256 statements in response.

4.6 Some customers also used this opportunity to tell us of their overall experience of using Fair for You, whilst others commented on issues relating to improved self-esteem and confidence. Although we have only been able to include a fraction of the statements we received in this section, they provide powerful illustrations of the social benefits that Fair for You has delivered for its customers.

4.7 Finally, as the survey was being conducted during the Covid-19 lockdown we took the opportunity to ask customers how they had been impacted by this, and what Fair for You could do to help.

BORROWING BEFORE USING FAIR FOR YOU

4.8 Eighty percent of Fair for You's customers had borrowed from other sources in the twelve months prior to them starting to use Fair for You. This equates to 26,880 households.

4.9 On average, customers used two other sources of borrowing in this period, but one in twelve members (8%) of this group used four or more[23].

[23] One percent used as many as eight sources.

4.10 The specific sources of credit used before Fair for You are reported in table 4, below.

Table 4: Sources of borrowing used by customers in the 12 months prior to Fair for You[24]

Source of credit	**% of customers using this source in the 12 months before using Fair for You**
Door to door lender	36.4
Family or friends	35.6
Credit card	30.4
Rent-to-own	29.1
Payday loan	16.7
Overdraft	16.3
Credit Union or CDFI	11.1
Guarantor loan	6.4
Pawnbroker	2.6
Personal loan from high street bank or building society	2.1
Unlicensed lender or loan shark	0.8

4.11 Nearly two thirds (60%) of customers who had borrowed from other sources reported that this borrowing had created significant difficulties for them.

- Over a third (36%) told us that it had led to stress or anxiety about money.
- 30% that their credit score had suffered.
- A quarter (23%) had to cut back on essential spending to make the repayments.
- 22% reported they had incurred additional fees and charges for late payments.
- Just under a fifth of customers (17%) had problems paying their household bills,
- 16% told us they had felt intimidated or harassed by their lenders, and
- 14% that they had had to borrow more money to pay the debt back.

Figures exceed 100% due to some customers using multiple sources of borrowing. 24

4.12 Customers reporting these issues typically experienced between two and three of these different types of problems. Extrapolating from the survey results to the overall customer base would indicate that, in the 12 months prior to using Fair for You, 16,130 of its customers experienced a total of 40,320 problems due to borrowing from other sources.

THE EXPERIENCE OF BORROWING FROM FAIR FOR YOU

4.13 In contrast to their previous experiences, over 90% of customers in the survey praised Fair for You's lending practices:

- 97% said that the application process was quick and easy.
- 95% said that the staff were very helpful, and
- 91% said Fair for You helped them to work out how much they could afford to borrow.

4.14 This very positive view of Fair for You's practices also extended to those customers who experienced problems repaying their loans.

4.15 Just under 10% of customers in the survey reported problems in this respect, but over 80% of these reported that Fair for You was "very understanding" about this, and a further 10% that Fair for You was "quite understanding". 89% of customers in this position felt that Fair for You was more helpful than other lenders.

4.16 Importantly, 86% of customers in the survey who reported problems with loan repayments also indicated that they had been able to "get back on plan" after talking to Fair for You.

BOX 2: IN THEIR OWN WORDS: WHAT CUSTOMERS SAY ABOUT FAIR FOR YOU

"It's so easy and affordable, the staff are so helpful too and made me comfortable in the knowledge that what I was borrowing was affordable Also no ridiculous interest is put on the items."

"Fair For You is a fantastic company, fast and efficient, with friendly, helpful and professional staff. They are an extremely fair company who give people, who have had financial difficulties, the opportunity to improve their credit rating, as well as being able to purchase items that they normally couldn't afford to buy. So long as Fair For You keep their interest rates and repayment strategies as competitive as they are now, in line with inflation, of course, then I will continue to not only remain a loyal customer, but also 100% recommend Fair For You to anyone. Fair For You is definitely the go-to company in my opinion!"

"Knowing I have Fair for You has completely taken the stress away. If I need a household item such as a domestic appliance, which are normally very expensive, I don't need to panic or stress as I know Fair for You will always help me. They have been amazing. The staff are great, and nothing is too much trouble for them. The best thing I ever did was read their advertisement on Google."

"I am no longer worrying about paying back lots of money to other lenders who were extortionate, and I now sleep much better."

PREVENTING HIGH COST CREDIT

4.17 Just over half (52%) of all customers would have borrowed from other sources to obtain at least one of their required items if they had not been accepted for a loan by Fair for You.

4.18 As the average Fair for You customer takes out 2.3 loans each, this indicates that since starting its operations, the business has helped around 17,500 people avoid using other forms of borrowing in respect of 40,250 loans.

4.19 When asked which sources of borrowing they would have used had they not been able to access Fair for You, survey respondents indicated that they would have primarily turned to door-to-door lenders, rent-to-own stores, and payday lenders. Nearly ninety percent of customers who told us that they would have borrowed elsewhere would have had to resort to these sources (table 5, below).

4.20 This was much a much higher proportion than had used these sources of credit in the twelve months prior to borrowing from Fair for You (table 4, above). This may be because customers had 'maxed out' their credit limits with other sources, such as credit cards and overdrafts, prior to approaching Fair for You. Alternatively, they may have experienced payment problems which now prevent them from accessing those products.

Table 5: Where would customers have borrowed from if they hadn't accessed Fair for You?

Type of item that would have been bought using alternative sources	% that would have used door to door lenders	% that would have used rent-to-own stores	% that would have used payday loans	% that would have used one of these three sources
Beds/ Mattresses	37.4	30.0	25.1	92.5
Cookers or ovens	40.6	32.1	21.7	94.3
Fridge Freezers	37.6	27.3	20.3	85.3
Washing machines or dryers	34.9	26.2	20.4	81.5
TV, Gaming console, or computer	45.7	27.4	20.5	93.7
Other	33.3	29.8	20.4	83.5
Average	**38.3**	**28.8**	**21.4**	**88.5**

4.21 In the absence of Fair for You, the survey indicates that door to door lenders would be the primary beneficiaries (38% of Fair for You customers indicated that they would use this source, compared to 29% for rent-to-own stores, and 21% for payday lenders).

4.22 Extrapolating these findings to overall loan numbers, we estimate that Fair for You has so far prevented approximately 35,615 high cost loans (15,415 door-to-door loans, 11,590 rent-to-own agreements, and 8,610 payday loans).

4.23 Disturbingly, our survey also suggests that approximately 5% of customers who would have borrowed from other sources to purchase their items would have turned to an unlicensed moneylender or loan shark if they had not been able to borrow from Fair for You. This equates to approximately 875 people and is more than would have used either a guarantor lender (600 people) or a pawnbroker (330 people).

THE IMPACTS OF 'GOING WITHOUT' ESSENTIAL ITEMS

4.24 Nearly two thirds (64%) of customers (equating to 21,500 households) were going without one or more of the four core products prior to using Fair for You.

4.25 This was either because they did not have the item present in their home at all, or because the item was "completely broken" and needed replacing. Of this group, half were without a working cooker or oven; a quarter were without a bed or mattress, and the remaining quarter without either a fridge-freezer, washing machine or dryer.

4.26 However, a further 16% of customers also identified that they would eventually have had to go without their items because the ones that they currently had were "faulty and needed replacement".

4.27 Extrapolating to the overall customer base, we estimate that nearly 27,000 households would have had to go without on their items for at least a month had it not been for Fair for You.

4.28 Of these, 22,000 households (82%) would have had to go without at least one of the four core items.

Table 6: Breakdown of customers who would have had to go without core products

Core product type	% of those going without core items	Number of households
Washing Machine/ Dryer	42.8	9416
Beds/ Mattresses	20.9	4598
Fridge-Freezer	18.4	4048
Cooker or Oven	17.9	3938
Total	**100.0**	**22000**

4.29 Survey responses indicate that going without these core products has serious implications for health and well-being:

- 82% of customers told us it would have negatively impacted their health (including mental health) or that of people living with them. This equates to 18,050 households.
- 68% would have faced higher living costs and been worse off financially. This equates to approximately 14,960 households.
- 50% said going without would have had a negative impact on their children's education and/or welfare. This equates to 11,000 households containing more than 25,000 children.

- 50% of customers would have experienced a deterioration in their relationships, either with people living with them or with their wider family and friends.
- 21% would have been less able to maintain a job that they already had. This equates to 4,620 households, and
- 18% would have been less able to seek work. This equates to 3,960 households.

THE POSITIVE HEALTH IMPACTS OF FAIR FOR YOU

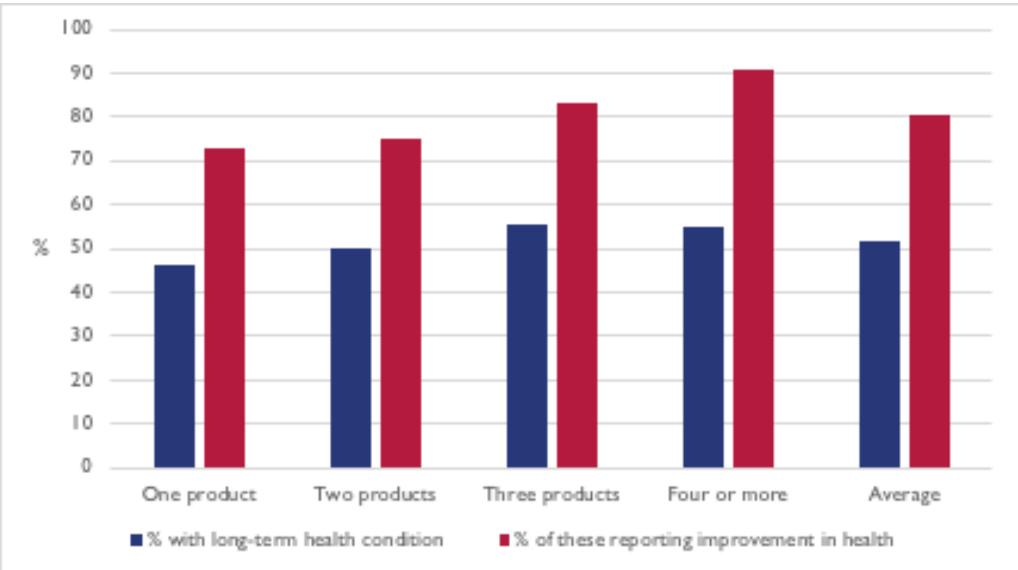
4.30 Regardless of whether a customer would have borrowed from other sources, or had to go without a core item for a significant period, our survey indicates that the health of over two thirds (68%) of customers, or of people living with them, had improved "because of borrowing from Fair for You". This equates to 22,850 households over the period of the study.

4.31 This exceeds the number of Fair for You customers who reported that either they, or someone in their household, had a pre-existing long-term medical condition. Just over half of Fair for You's customers (52%: 17,480 households) were in this position.

4.32 However, households with pre-existing long-term medical conditions were much more likely to experience improvements in health because of borrowing from Fair for You than those without (80% compared to 23%).

4.33 The percentage of households with long-term conditions reporting an improvement in health also increased in line with the number of products bought using Fair for You, with 90% of those buying four or more products reporting that their health improved (figure 6, below).

Figure 6: Percentage of customers with long-term health problems reporting improvements in health, by number of products bought



4.34 Overall, three quarters of customers who reported that their health improved because of borrowing from Fair for You attributed this to the specific products that they had bought.

4.35 The specific core products and the proportion of customers reporting these as important to their health are set out in table 8, below.

Table 7: Core products and importance to health

	Percentage of 'health improved customers' reporting importance of this product
Washing Machine/ Dryer	48.2
Beds/ Mattresses	33.2
Fridge-Freezer	27.6
Cooker or Oven	26.8

4.36 However, it should also be noted that a wide range of other products were identified by customers as having a positive impact on either their own health or that of others in their household. These included:

- Items to help keep homes clean and tidy (e.g. vacuum cleaners, new bedding and dishwashers), which were especially appreciated by households containing someone with asthma or allergies, or who had problems standing for lengthy periods.
- Items which facilitated physical exercise, such as bicycles and gardening equipment, and
- Items which made people feel better about their home and themselves, and relieved stress and mental health problems. These often met a wide range of highly individualised needs, and included furniture and furnishings, TV's and computers, and, in a few cases, vouchers to go on family holidays.

BOX 3: IN THEIR OWN WORDS: FAIR FOR YOU AND HEALTH

"We went for six months without a cooker, as I couldn't afford one. We were looking at no Christmas dinner, but I found Fair for You just in time. It made a huge difference to my mental health as I could now feed my children."

"Having four children at home, I found it so hard to give them healthy meals, with no oven."

"Having clean clothes available has boosted my self-esteem. Having a fridge freezer has made me eat more healthily, and drink lots of cold water from the dispenser. It's more economic to freeze food too."

"If I didn't have a washing machine my anxiety would have been worse because I wouldn't have been able to do the washing and keep the children's clothes clean for school."

"Well apart from keeping food fresh and being able to store meat, I'm diabetic so a fridge is essential for storing my insulin."

"It took the stress off going without, and I can now keep my partner's cancer meds safe in the fridge. Thankyou from my family."

"The mattress was much better for my back as the one I had was really thin and springy I couldn't afford one from elsewhere. The hoovers are great too, my one was broken so wasn't picking up the dust and I have asthma."

"I have type 1 diabetes and stress can cause my blood sugars to go high, so not having to stress about how I'm going to clean my clothes…it's is a big relief. Yeah, now I have better control with my blood sugars."

"I am in less pain now, after buying the dryer from you. Before, I had to dry things on the radiators & to peg clothes out I had to go down steps to my garden. Being disabled, it was agony. The cooker is good as I got a double oven so its quicker cooking food and I'm not standing for ages waiting to cook different foods like I was before. It's made my life so much easier. Thank you."

"I needed a new bed for my autistic son. He had bunk beds before and didn't like sleeping on the bottom bunk and he couldn't climb the ladder to sleep on the top bunk, so we had so many sleepless nights. Being able to buy new bed helped a lot."

"I was always ordering food from takeaways but since I started shopping with you, I am able to do a full food shop and eat much healthier."

"I have a partner with Chron's disease, so it is important we have a washer. We were so stressed, and my son is autistic and changes his bed once a day, and clothes sometimes three times! So, you can imagine how I was amazed at your service. Stress free household thanks to Fair for You!"

"My son has dust allergy, but there are no major signs of skin irritation since using the new vacuum."

"I had a crumbly concrete floor and was breathing in the dust every night and had a chest infection for several weeks. As soon as I got a carpet, my chest infection disappeared. I felt much happier."

"We desperately needed a new decent mattress as we had extremely bad backs and other health issues related to this."

If I hadn't been able to borrow from Fair for You my levels of stress would have gone through the roof. I suffer from depression and anxiety and I'm on anti-depressants and I am house bound. I needed a washing machine as I have a 14-year-old son who has behaviour problems. I couldn't wash his uniform without a washing machine which would just add to my stress, so thank you very much."

"Being able to get a proper bed base meant we weren't sleeping on the mattress on the floor, which helped my back, but especially my partners who was pregnant at the time of buying."

"My husband has a long-term illness and his immune system isn't as strong as it could be. Having a dishwasher has meant all our kitchen equipment and cutlery, plates etc are a lot more sterile."

"My daughter was without a bed for over a year, and it had an impact on her sleeping as she was always in and out of my bed. I felt like a failure as a mum, so my mental health was shot at as well as my physical health because I suffer from back and leg problems. So Fair for You really saved both mine and my daughters health and helped us get back to a normal family life."

"My little boy has special needs and toileting is a big issue, the tumble dryer has saved the washing hanging everywhere to dry and made me less anxious."

"I have a lot of health problems and I couldn't wash my clothes by hand so when I got a washing machine and dryer it helped me a lot."

POSITIVE ADDITIONAL IMPACTS

4.37 In addition to improving health, and in line with the analytical frameworks presented in section 3 previously, customers also reported an extremely broad range of other benefits "because of Fair for You":

- 71% reported that they had been able to stop using high cost credit altogether[25].
- 60% of customers were much better able to keep up with their bills and pay for other essentials because of Fair for You.
- 56% were much better able to keep up with their other credit commitments.
- 55% reported feeling a lot less stressed or anxious about meeting their normal monthly expenses.
- 53% felt a lot better about themselves and their home.
- 44% reported that their overall satisfaction with daily life had improved a lot.
- 43% were able to buy things for their children that they could not have afforded previously.
- 36% were better able to put some money aside each month as savings.
- 33% reported that they had improved their credit score.
- 31% reported that their confidence as a parent had improved.

[25] The percentage of customers reporting this rose as the number of products purchased from Fair for You increased. For example, 81% of customers purchasing four or more products from Fair for You reported that they had stopped using high cost credit altogether, compared to 58% of customers purchasing a single product

BOX 4: IN THEIR OWN WORDS: THE WIDER BENEFITS OF FAIR FOR YOU

"It's given me more disposable income and I've stopped using high cost lenders altogether."

"Fair for You is fantastic. I can choose how much to pay back and how often, and I feel great providing a home for my children with everything they need to be clean happy and healthy."

"I can cook meals now instead of living on microwave food, and I don't have to spend a fortune at the launderette."

"I'm now able to clean carpets and making the house cleaner makes me feel better."

"It made me happy that I can give my child the essentials in life."

"Having a brand-new washer, without having to pay the full cost in one go, has really helped me to feel better as a mother and about my home."

"It's made life in general much easier less stressful and made my children happier also."

"I feel more in charge of my life! And a better person because of Fair for You. They trusted me, didn't rate me on my past money problems, and had such good customer service over the phone! And obviously this is good for my self-esteem, and my credit score. Absolutely brilliant. It's just a washer dryer to most people, but to me it's a miracle. Thank you."

"Getting a good night's sleep on a comfortable mattress has made a huge difference to me and my family as I am not tired when I wake up, and I am in a better mood for the day."

"I am no longer was sleeping on a hard floor and am able to get a good night's sleep to be able to fully function the next day. I've got my motivation back to do things."

"I started a college course, but I didn't have a laptop to complete the coursework, and that was getting me down. But Fair for You helped me to buy a laptop, and I have now passed my course, level 2 teaching assistant and am looking forwards to my level 3. Thank you Fair for You."

“It’s made me feel confident that I can get what I needed for my baby, knowing I can pay weekly. As a single parent I don’t have money to buy things for my family home outright. This has helped me worry a lot less.”

“My old washer didn’t work very well and was smelly. My children were getting teased at school and I got called in by the head to talk about the children being unclean. The new washer has helped so much with that, and now there are no problems at all from the school.”

“I am able to dry the children’s clothes quicker and the place looks tidier with the new furniture in the front room. It makes it more homely and welcoming and makes me feel better inviting people over.”

It’s helped that I’m not paying massive interest payments and they’re products that I know and trust Thank you , I’m now able to go out in clean dry clothing that smell good and I don’t feel embarrassed.”

RESPONDING TO COVID-19

4.38 Fair for You's customer demographic is concentrated amongst households with low, but often stable, benefit incomes. As a result, the majority (72%) of survey respondents told us they had not experienced any reductions in income due to the pandemic.

4.39 Nevertheless, 15% of all customers reported that they now faced increased costs of looking after others (including the children in their home) and around one in twelve (8%) were struggling to pay household bills. A similar proportion were also having to find money to help family and friends that had been impacted financially during the lockdown.

4.40 Loss of income was a much greater problem for those customer households containing someone in employment. Of these, 41% reported a loss of income due to the pandemic. However, at the time of the survey this was not leading to increased problems with credit repayments (just 5% of these households reported this) or to people struggling with bill payments to any greater extent than those for the customer base as a whole.

4.41 When asked to provide suggestions as to how Fair for You could help them through the pandemic, the survey received 1,230 responses. However, most of these indicated that Fair for You needed to do very little beyond continuing to take an understanding approach to people experiencing payment difficulties:

"They don't need to do anything extra as they will help you with this Covid-19 if you have got a problem and can't afford the repayments."

"Just carry on being your helpful and understanding selves."

"You are a fair company to start with."

4.42 However, some customers pointed out that the best thing Fair for You could do was to keep providing credit, including by possibly extending their range:

"Still try to provide people with items of importance like cookers, fridges and freezers etc."

"A lot of people are now struggling to afford new clothes for themselves and their families, so introducing clothing suppliers would be a massive help. Also, perhaps educational or leisure goods for children?"

4.43 Whilst others, regardless of whether they had themselves been impacted, thought a combination of payment breaks or reductions, and interest freezes would be helpful.

Be patient with those who are not furloughed. It's not their fault if they fall behind. I'm disabled and on benefits so thankfully it's not impacted me like it has for others. I feel for them. They will be stressing deeply about money and not being able to pay their bills."

"They've reduced my payments for the next 3 months. Were really understanding with me."
"Lower payments for customers in trouble with their finances."

"Freeze interest and offer payment breaks."

"Maybe offer a payment holiday for people unable to work."

"I think the customer service at this time has been brilliant, and I feel you are massively helping your customers so a big thank you from me."

"Offering payment breaks for a few weeks but extending the loan repayments to make up for the payment breaks."

5 CALCULATING THE RETURN ON INVESTMENT

5.1 Given the sheer number of positive social benefits identified in previous sections of this report, it is impossible to arrive at a comprehensive monetary estimate of Fair for You's social value.

5.2 There are, for example, currently no robust financial proxies that we could use to estimate the value to customers of improving the diets of their children, or of sleeping better at night due to reduced money worries.

5.3 Nor can we accurately assess how far arrears with rent, Council Tax, or other household bills have reduced for the 60% of customers (approximately 20,000 households) that reported this as having taken place directly because of Fair for You.

5.4 However, we can make some cautious estimates of the social value created in relation to the financial savings that Fair for You has delivered for its customers. This comprises both:

- The amount of money that has been saved because households have been able to obtain essential items, and
- The amount of money that has been saved because Fair for You has prevented customers from having to borrow from high cost commercial credit sources.

5.5 We also included some additional questions in our survey to help us estimate the extent to which Fair for You was alleviating the pressure on the National Health Service, and how much money was being saved as a result of this.

5.6 This section now proceeds to report on the financial savings achieved for customers and the impact on the NHS in turn.

5.7 It then discusses the costs of providing Fair for You, seeking to calculate the Social Return on Investment ('SROI'). However, we highlight several problems with the SROI approach as it relates to Fair for You, and affordable credit providers more generally. These are particularly evident because:

- Capital investment in affordable credit providers 'recycles' on a regular basis to create a multiplier effect, and

- Fair for You has been operating profitably since February 2020. As such the traditional method of calculating the cost of 'investment' for SROI purposes (i.e. a grant to cover operational costs) is no longer appropriate.

5.8 In view of these difficulties, we propose an alternative approach: the 'Social Return on Capital Employed'. We set out the basis for this measure and argue that this approach should be adopted as a consistent methodology to assess the return on investment for the sector moving forwards.

THE FINANCIAL SAVINGS FOR CUSTOMERS

5.9 The financial savings delivered by Fair for You comprise two elements: reductions in the cost of living, and reductions in the cost of credit. We therefore proceed to estimate the impact of these as follows.

REDUCTIONS IN THE COST OF LIVING

5.10 Fair for You primarily helps its customers to reduce their living costs by providing an opportunity for people to obtain core household items that they would otherwise have to live without for significant periods.

5.11 In this respect, we know that (table 6, above) 17,402 households would have had to go without cookers, fridge-freezers, or washing machines for at least a month if they had not been able to access Fair for You.

5.12 Our analysis also indicates that many of these households would have had to go without more than one of these items, and that, in total, more than 26,850 such appliances have been provided by Fair for You to these customers.

5.13 The additional costs of living without these items have recently been calculated by Turn2Us[26]:

[26] 'Living Without: the scale and impact of appliance poverty'. Turn2Us, January 2020.

- The additional costs of living without a cooker or oven amount to £42 per week for a family of four.
- Living without a fridge-freezer adds £26.26 to the weekly shopping bill.
- On average, using a launderette, costs households £20 per week more than it would if they had their own appliances.

5.14 Clearly, the costs calculated by Turn2Us are highly dependent on household size. We therefore took the above figures as a starting point for families of four or more and scaled these back for smaller families[27].

5.15 The results from this exercise indicate that by providing these appliances, Fair for You has saved these 17,042 customers a total of £490,559 per week (an average of just under £30 per week per household).

HOW LONG WOULD PEOPLE HAVE TO GO WITHOUT?

5.16 It is likely that, without Fair for You, these households would find it extremely difficult to save up sufficient funds to purchase their items.

5.17 We consider that most Fair for You customers are in a similar financial situation to people seeking advice and assistance with their debts, and whose ability to save is severely constrained. For people in this position, the Standard Financial Statement, introduced for use by debt advice agencies by the Money Advice Service in 2016 provides a guide to how much money these can expect to save of just £20 per month. On that basis, it would take Fair for You's customers 104 weeks to save enough to be able to afford a cooker.

5.18 Even if we were to be cautious in this respect, and assume that most of Fair for You's customers were able to save sufficient amounts to buy their items after 78 weeks (the same duration as many rent-to-own agreements), the total level of additional cost incurred by living without essential items over that period would be in the region of £38.2 million (for a breakdown of this figure, see table 10, below).

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27 Our assumptions being that households of two people or less would save half these amounts, and that families of three would save three-quarters.

REDUCTION IN THE COST OF CREDIT

5.19 In roughly half of all cases, Fair for You customers told us that rather than go without their items they would instead borrow money from other sources.

5.20 And, in the vast majority of cases (table 5, above), this would mean borrowing from either door to door lenders, rent-to-own stores, or from payday lenders.

5.21 Table 9, below, provides the basic cost comparison between Fair for You and these lenders.

Table 9: Comparison of costs, Fair for You vs Provident, Rent-to-own, and Payday lenders[28]

	Cost of a £350 loan	Savings made by borrowing
Fair for You	£411.25	N/APP
Provident	£655.2	£243.95
RTO	£686	£274.75
Payday	£700	£288.75
Average savings		**£269.15**

5.22 In total, we estimate that 36,700 items would have been bought from other sources in the absence of Fair for You, and that 32,500 of these would have been bought from high cost credit lenders.

5.23 At an average loan amount of £350, and at average savings of around £270 per loan, the total saved for customers on these loans is therefore in the region of £8.7 million (an average of £560 per household).

5.24 Some savings will also have been made on the other types of credit agreements that have been displaced by Fair for You, although these are harder to estimate. At a very cautious estimate of just half that calculated in respect of the high cost sources above, this would indicate a further £567,000 of savings for Fair for You's customers.

[28] Provident loans over 52 weeks, as at 14th August 2020; Rent-to-own based on £350 'cash price' product with PerfectHome, including additional cost for theft and accidental damage cover and averaged over loan durations of 78 and 104 weeks; Payday loans based on six month loans with interest capped at 100% of loan amount.

LATE PAYMENT CHARGES

5.25 In addition to the interest saved, over a fifth of customers reported a significant level of default charges and fees being added to their accounts in the 12 months prior to using Fair for You (para 4.11 above). As Fair for You does not charge its customers for occasional missed payments, we estimate that savings have also been made in this respect for a further 5,900 households on a total of 14,780 loans. At a conservative estimate of £48 in late charges per loan[29], this equates to £709,632.

TOTAL FINANCIAL SAVINGS

5.26 Bringing these factors together, we therefore, estimate that the direct cash savings achieved by Fair for You for its customers are at least £48.3 million (table 10 below).

Table 10: Estimated financial savings delivered by Fair for You

Type of financial saving	Financial proxy	Number of people/ instances	Duration	Estimated Social Value
Cash savings made by households who would otherwise have borrowed from high cost credit sources	£270.00	32500	1 year	£8,775,000
Cash savings made by households using other credit sources	£135.00	4200	1 year	£567,000
Cash savings due to absence of late payment fees	£48.00	14780	1 year	£709,440
Cash savings made by households who would otherwise have gone without cookers or ovens	£28.55 per week	6350	78 weeks	£14,140,815
Cash savings made by households who would otherwise have gone without fridge-freezers	£17.98 per week	6543	78 weeks	£9,176,165
Cash savings made by households who would otherwise have gone without washing machines' dryers	£13.72 per week	13970	78 weeks	£14,950,135
Total				**£48,318,555**

[29] This is equivalent to being late with four out of twelve monthly payments on a credit card, where typical charges are £12 each.

IMPACT ON HEALTH SERVICES

5.27 In addition to estimating the direct financial savings achieved for customers, we also looked at the potential impact of Fair for You on the use of health services.

5.28 We asked some specific questions on this aspect in our customer survey, and nearly half (47%) of those respondents stating that obtaining items through Fair for You had improved either their own health or that of someone living with them also reported that this had made them less likely to visit health services or take medication.

5.29 The estimated number of customer households over the study period benefitting in this way is therefore 10,740.

5.30 Whilst just over one quarter (28%) of survey respondents in this position were not able to put a figure on the reduction in visits, the overwhelming majority (72%) were able to do so. On average, these reported that they were likely to make 3.5 fewer visits.

5.31 The above impacts create savings for the NHS. For example, the cost per contact with mental health community provision has been estimated by NHS Improvement as £179, whilst they also estimate the cost of an hour's consultation with a GP at £130. Taking the average of these figures and multiplying this by the number of households reporting lower likely health service use gives an estimated saving to the NHS of just over £1.6 million.

5.32 In addition to this, NHS Improvement also estimates prescription costs per GP consultation of £33. On a cautious assumption that the 10,740 customer households required just two fewer prescriptions than previously, this would provide for an additional saving of £354,420.

INDIRECT HEALTH BENEFITS

5.33 The above savings relate only to those Fair for You customers for whom there has been a major improvement in health because of the specific products that they purchased.

5.34 However, a further quarter of Fair for You customers report that their health, or that of others living with them, improved a lot despite this not being due to the product itself. In total, this equates to 5,700 customer households. 16% of these households said that they were less likely to use health services as a result. The total number of households reporting indirect health benefits is therefore estimated at 912.

5.35 The average reduction in visits for this group was reported as slightly higher than previously (4.25 compared to 3.5). Calculating the cost savings to the NHS for this group, therefore results in an estimate of £503,880 in respect of fewer visits, and £127,900 in lower prescription costs.

TOTAL SAVINGS TO THE NHS

5.36 In total we therefore estimate that Fair for You has delivered savings to the NHS worth around £2.2 million to date. However, these are likely to be ongoing savings, as peoples' health conditions have been significantly improved by the items they have bought and the money that they have saved.

CALCULATING THE SOCIAL RETURN ON INVESTMENT

5.37 Taking both the financial savings for customers and the estimated savings for the NHS together, we estimate that Fair for You has delivered total social benefits of at least £50.5 million.

5.38 Based on the cost information received from Fair for You we have estimated the SROI for each of the years since Fair for You started its operations. This involves the disaggregation (table 11, below) of the total social value to individual years based on the number of loans made, and then the calculation of Net Present Value and SROI[30] using the costs of operation (expenditure less revenues) for each of these.

[30] For further details see the methodological Appendix.

Table 11: Social Return on Investment, calculations 2016 to 30th June 2020

	2016	2017	2018	2019	2020 (to 30th June)
% of Social value (based on loans made)	4.3	13.6	24.1	33.8	24.2
Amount of social value	£2,194,090	£6,854,852	£12,160,247	£17,059,999	£12,234,117
Costs of operation	£745,424	£593,609	£614,797	£203,128	£1 (nominal)
Discount social value 3.5%	£76,793	£239,920	£425,609	£597,100	£428,194
Discounted value	£2,117,297	£6,614,932	£11,734,639	£16,462,899	£11,805,922
Deduct costs of operation to arrive at Net present value	£1,371,873	£6,021,323	£11,119,842	£16,259,771	£11,805,921
SROI (Net present value/ cost of operation)	£1.84	£10.14	£18.09	£80.05	£11,805,921

5.39 This exercise indicates that Fair for You's SROI has increased year on year from £1.84 for every £1 of net operational cost in 2016 to over £80 for every £1 of net operational cost in 2019[31].

5.40 There was a particularly large increase in the SROI between 2018 and 2019, which has been due to increased volumes of lending, and a significant reduction in the net costs of operation (i.e. after accounting for the growth in revenues) between these years.

5.41 This reduction in the net cost of operation for 2019 was driven by increased revenues due to larger lending volumes. Fundamentally, the SROI has increased rapidly because the business has been scaling up; recycling capital quickly and becoming more efficient. Business operational costs increased by just 16% between 2018 and 2019, but revenues increased by 43% following a rise in total amounts lent to customers of 37%.

5.42 However, there is an obvious problem with the continuing use of this method. Since February 2020, revenues have exceeded operational costs, and dividing by zero would render the calculation meaningless. Even inputting a 'notional' cost of £1 for operational costs in 2019/20 would result in an SROI calculation of £11.8 million.

[31] The findings are broadly consistent with our earlier report for Fair for You. This estimated an SROI of £4.56 in March 2017: an amount close to the average of the 2016 and 2017 calculations in this report.

THE SOCIAL RETURN ON CAPITAL EMPLOYED

5.43 Whilst operational costs are now completely covered by revenues, there does remain a cost to social investors. This is effectively the amount of any discount that they have applied to capital invested in Fair for You. They also require a measure which can guide them as to where their capital investment would have most impact.

5.44 In this respect, commercial investors have long used a measure of the Return on Capital Employed ('ROCE') to help them identify how efficiently capital is being used by firms. This is calculated by dividing net profits by net assets[32].

5.45 In the case of not for profit lending operations, investors are prepared to discount the cost of capital in view of the wider social returns being generated. They are therefore seeking a 'Social Return on Capital Employed', which can be arrived at by including the estimated social value in the profit side of the traditional ROCE equation.

5.46 Applying this method to Fair for You for 2019 (the last full year of operation and for we have seen the accounts), would indicate that the Social Return on Capital Employed for that year was 384%.

5.47 This is clearly set to increase further in 2020. However, until this measure is used consistently across the affordable lending, and potentially other, sectors, then we are unable to draw any comparative conclusions.

[32] For further details of how to calculate and express ROCE see, for example, https://www.lloydsbank.com/business/key-financial-ratios.html

6 CONCLUSIONS AND RECOMMENDATIONS

6.1 The impact that Fair for You is having on its customers lives can hardly be overstated. The provision of affordable and flexible loans to help low income households obtain essential items is having a dramatic impact on their health and well-being, and in many cases on that of their children too.

6.2 Our research identifies a huge breadth of positive benefits, arising both as a result of direct 'product specific' impacts and because of the considerable financial savings that customers are making compared to the cost of the alternative borrowing options available to them.

6.3 Fair for You's lending processes are also credited by many of its customers as important factors contributing to their gaining greater control over their finances.

6.4 It is a hugely impressive achievement for Fair for You to have transitioned an estimated 71% of its customers (equating to around 24,000 households) away from the high cost credit sector altogether, and it is clear that it has built a hugely loyal customer base which not only use it because it is cheaper than commercial sources of credit, but because they feel understood and treated with respect even when they experience repayment difficulties, as many inevitably do.

6.5 Our estimate of the social value that has been created by Fair for You is at least £50.5 million. It is not, however, possible to put a value on the entire array of positive benefits that Fair for You creates for its customers. The figure therefore includes only those most obvious and measurable aspects of its impact: the financial savings achieved for customers and its wider economic impact on the use of health services. To be clear, the £50.5 million is the 'tip of the iceberg' when it comes to the social value being created.

6.6 Of the two elements we have been able to value in monetary terms, we estimate the financial savings for customers at £48.3 million. Again, this is a conservative estimate. Our comparison of Fair for You's interest charges with those of high cost lenders is, if anything, generous to the latter. We know, for example that door to door lenders routinely encourage their customers to 'roll over' their loans, leading to the charging of interest on interest. Similarly, we have been cautious in our cost comparisons with rent-to-own lenders, which often tie their customers into 104-week agreements to extract additional revenue.

6.7 Our findings indicate that these, and other, sources of commercial lending to low income households are the *direct cause* of a tremendous number of problems for low income households. Not only is a horrific financial exploitation of hard-pressed families taking place, but an oppression of these households is also evident. Huge numbers of people are experiencing stress and anxiety; are being forced into cutting back on food and other essentials, are being driven into arrears on their rent and with their Council Tax and are being intimidated and harassed by the high cost credit sector. Fair for You is rightly seen by many of its customers as a 'lifesaver' in comparison.

6.8 We therefore call for everyone who reads this report to commit to doing whatever they can to support the further expansion of Fair for You.

6.9 For social investors, including Government, both national and local, that means providing more capital for lending. More than half of the financial savings delivered by Fair for You have been achieved for customers in the past two years alone. Increased social investment in the business has allowed it to scale. Further investment will inevitably deliver even greater social benefits now that Fair for You's revenues cover its operational costs.

6.10 Over time, the business will, of course, be able to reinvest any surpluses to aid its own expansion. But such a strategy would provide only an extraordinarily slow path to growth. The huge damage being done to low income households including to the health, education, and welfare of their children, demands an urgent response. A bold plan to rapidly scale up Fair for You is needed, with social investors coming together to back this.

6.11 It is not only a case of increasing capital investment to support the further expansion of Fair for You as it currently exists. We need to recognise that huge numbers of people, currently going without essential items or trapped in debt dependent relationships with high cost lenders, are simply not able to be served profitably.

6.12 The drive to 'sustainable' (i.e. profitable) business models in the affordable lending sector is increasing the number of households falling into the gap between the social security and affordable credit 'systems': people who are not poor enough for a grant, but who are also too poor for loans.

6.13 It is also creating pressure on affordable credit lenders to ether raise interest rates, move away from making smaller loans, and/or begin to lend at the margins of affordability.

6.14 Add to this, the fact that the Covid-19 pandemic is causing many lenders, including those in the not for profit sector, to 'fly to safety', and there is a clear and present danger of a huge expansion of the under-served market: a prospect some high cost lenders are already eyeing with delight[33].

6.15 Fair for You has been less impacted by the pandemic than others in the sector, partly because of the customer demographic it serves. These tend to have relatively stable incomes, with many in receipt of benefits due to long-term health problems. However, it has witnessed a considerable increase in demand, which it must be capitalised to meet.

6.16 The business has developed new, innovative, ways of meeting the need for lower value loans, and with support from Iceland, Nesta, Fair4All Finance and the Esmee Fairbairn Foundation is introducing a Food Club to help parents of school aged children better cope with the higher costs of living during school holiday periods.

6.17 Other innovations are possible. For example, in respect of cheap loans to meet funeral costs, or to provide rental bonds for tenants in the private sector. Dedicated funding is needed for Fair for You (and the wider sector) to embark on a programme of research and development: to conduct market research, and co-create these and other new products and services together with low income households to help address material deprivation.

6.18 But such innovations are always likely to prove 'loss leaders' at best. Bringing them to market will require social investors to recognise their non-profitable nature.

6.19 There is also a clear case for local authorities, housing associations, and utility companies to support both Fair for You's core business and these new innovations. Sixty percent of Fair for You customers report that they are better able to pay their household bills because of using Fair for You. And many of the parents who will be targeted for the Food Club would otherwise likely need to fall back on local welfare grants or Food banks. We therefore call for these agencies to consider how they could provide greater help to Fair for You, for example by providing funding to underwrite risk, and by putting in place referral mechanisms.

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[33] See for example, the comments made by the Chief Executive of Non-Standard Finance, John Van Kuffeler to the Financial Times on 25th June this year https://www.ft.com/content/189d3e59-8ebd-4889-9089-7ac19b9ea2fe

6.20 Underwriting of risk and the creation of referral mechanisms should also be considered by health agencies. Our research indicates that Fair for You saves the NHS money, by improving the health of its customers and reducing the demand for GP consultations and community health provision. We have estimated this saving at £2.2 million, but this is again likely to be a considerable under-estimate as the types of improvements in customer health that have been reported, including better diets, relief from pain, and reductions in stress and anxiety are likely to have positive impacts for several years to come.

6.21 We therefore call for Primary Care Networks to work with Fair for You and create referral mechanisms from their social prescribing teams. A trial involving the discounting of capital costs to enable Fair for You to meet the needs of all households referred through this mechanism should now be explored.

6.22 Ultimately, it is both the cost and volume of capital which determines how many households Fair for You can serve. Fair for You currently has very high loan rejection rates. We therefore hope that as well as increasing the level of capital investment, investors also consider the further discounting of its cost.

6.23 We recognise that there are several barriers to raising levels of social investment in the affordable credit sector. Whilst the establishment of Fair4All Finance has rightly been identified as a 'game changer' in this respect, the exclusion of financial services from the Social Investment Tax Relief scheme, and the capital adequacy rules contained in the Basel III accord restrict the incentives for philanthropic investment and from all but the best capitalised banks. We would therefore encourage Government to continue to explore ways in which the sources of social investment can be widened: for example, by incentivising banks to engage more consistently, and on preferential terms, with the sector.

6.24 It is also, of course, perfectly understandable that investors wish to measure the impact they are having and to be able to assess by how much they should discount the cost of capital.

6.25 Unfortunately, much work remains to be done in this respect. We have calculated the Social Return on Investment ('SROI') for Fair for You for the years 2016 through to 2019. This shows that the social value created for every £1 of net cost of operation increased year on year from £1.84 in 2016 to over £80 in 2019.

6.26 However, the traditional means of calculating the Social Return on Investment is no longer appropriate, as Fair for You now has net operating costs of less than zero. We therefore propose that a new measure – the Social Return on Capital Employed ('SROCE') – be adopted for the affordable credit sector, and potentially beyond. On this measure, Fair for You posted a return of 384% in 2019 and this is set to increase further in 2020.

6.27 As we have now conducted a comprehensive assessment of the prevalence of product specific benefits and financial savings being delivered to Fair for You's customers we can refresh the calculation on an annual basis by tracking a reasonably simple set of metrics[34].

6.28 However, until the measure is in common use across the affordable lending sector, and more generally, we are unable to compare Fair for You's performance with others, and investors have no effective guide to their decisions. We therefore call on investors to roll out the calculation of SROCE across the sector.

6.29 In doing so, we also recommend that social investors commission further research to develop appropriate, and robust, financial proxies covering the huge swathe of social benefits that we have not, thus far, been able to value. Our methodological appendix provides further details of the challenges in this respect, and points to possible further research projects.

6.30 In the meantime, however, it is most apparent that the social and economic value generated by lending is highly contingent on the way in which borrowers use their credit. High total cost credit, including as can arise when agreements are constantly refinanced, is extractive: the total costs paid by borrowers can exceed the benefits generated by its use.

6.31 Evaluating social benefits can therefore pose a challenge for lenders who provide cash loans, and who do not necessarily have good oversight of their end uses. Although loans may be more affordable than high cost commercial alternatives, it remains possible for borrowers to end up in credit dependent relationships with even not for profit providers.

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[34] The main ones are the numbers of cookers, fridge freezers, and washing machines being sold; total number of customers and loans made; and information concerning revenues and costs of operation.

6.32 In this respect, our report provides valuable insights. Fair for You's lending processes are as important as the cost of its loans: helping people to calculate how much they can reasonably afford to borrow, being flexible with repayments, and refusing to impose late payment charges or re-lend to people in arrears.

6.33 These best practices should now form the bedrock on which credit should be provided to people on low incomes and we call upon investors in the affordable credit sector, together with colleagues in HM Treasury and the Financial Conduct Authority to explore how they can ensure these practices move from the being the exception to the norm within the next five years.

centre for responsible credit

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