# Financial Exclusion And The Jaws Of The Moneylenders

## How social landlords can help tackle the grip that high-cost lenders have on people on low incomes.

For a typical social landlord now, probably at least a third of all tenants are in the grip of at least one branch of the high-cost lending industry – doorstep lending, payday loans, pawnshops, log-book loans, and pay weekly stores.

Typically several hundred pounds per year in costly finance is leaching out of each shallow pocket, way above the rates that most people reading this can readily access through mainstream lenders. And, for some, this is the doorway to spiralling debt, an out-of-control life, and financial and personal disaster. The problem is huge, and it's still growing; and it's about to be supercharged by the impact of Welfare Reform on those same shallow pockets.

We've all seen it coming, of course, but the interesting question is what can you do about it? Or - to be more precise - can you do something about it that is big enough to make a dent in the problem (as opposed to merely sandpapering the edges)?

At i.s.4, we've been working on some fascinating projects, and are convinced that the answer is yes.

Let's be honest; well-intentioned but diffused financial inclusion strategies abound in councils and housing associations. A creative but patchy ethical not-for-profit sector sometimes looks just too much like a cottage industry. Simply campaigning for more regulation is attractive and much easier than developing alternatives (and there is certainly some scope for more regulation as one part of the response).

But, despite the difficulties, there is some very interesting stuff going on! Brave souls are venturing further onto the high cost lending battlefield, starting to take the commercial lenders on, and not doing so badly either. The NFHA-sponsored My Home Finance project, ScotCash in Glasgow, East Lancs Moneyline and some of the most ambitious credit unions, are all impressive efforts involving ethical finance organisations (credit unions and Community Development Finance Institutions (CDFIs)), councils and social landlords.

More of this is surely called for! Looking forward, and looking at the lessons from existing experience, what is the main food-for-thought that emerges?

The barriers to growth can be summarised like this:

- Firstly, ambition and scale are both important and we'll find that they need to come together. All the business models show that size matters for viability, plus, of course, if you want to make a visible dent in a problem of this scale, you do need to hit it with something large.
- Secondly, you have to start to think a bit like the competition, to understand the appeal of the sector and why it is so successful. Not everyone who walks through their doors is so desperate their brain is in neutral – many people are genuinely attracted by what is on offer. Well-off people can be seen regularly exercising their natural human right to waste their money and get taken in, so why do we expect poor people not to?
- Thirdly, much more practical, but just as big a barrier as the first two, a lot of the challenge is at a basic level of being able to access "fit for purpose" systems, marketing expertise and skilled staff. Get that wrong and you get nowhere with a financial business like this.

High-cost lending is a problem of our time, and it absolutely cries out to be top of the priority list for social landlords trying to find practical ways of improving the life chances of their tenants.

There is not yet a neat blueprint for a successful venture available, but it certainly has three key components:

- social landlords committing energy and resources to working with their tenants and providing the natural route of communication with much of the market
- an ambitious ethical finance organisation such as a credit union or CDFI
- and a wider financial inclusion partnership preferably with a committed council at its heart.

These good intentions can be seen, of course, in many places now, often with worthwhile but rather modest results. The challenge is to step up from here, using the path at least partly beaten by some of the bolder efforts we have already spoken of. Social landlords really can be, and should be, at the head of the charge.

**The Authors**

Bill Truin
bill.truin@is4.org.uk
07975 814 981

John Jeffries
john.jeffries@is4.org.uk
07969 726 023