Alternatives to High-cost Credit Report

July 2019

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1 Summary

Why we are publishing

1.1 In this paper, we:

- examine the market for alternatives to high-cost credit by looking at consumer demand and the availability of credit and non-credit alternatives
- set out the actions we have taken following the commitments we made in our high-cost credit publications of November and December 2018
- explain our and other organisations' roles in supporting alternatives to high-cost credit

Who may be interested

1.2 This paper is likely to be of interest to:

- providers of lower cost credit, including credit unions and community development finance institutions (CDFIs)
- organisations that work with consumers who use high-cost credit products, including registered social landlords (RSLs), local authorities, charities, consumer groups
- firms and individuals seeking to innovate in the area of social finance
- trade bodies and associations representing any of the above
- relevant Government departments
- providers of second-hand household goods, including reuse centres

The wider context

1.3 The high-cost credit market has been a priority for us since we took over the regulation of consumer credit in 2014. To tackle the harm we identified, we have intervened in the markets for high-cost short-term credit (payday loans), rent-to-own, home-collected and catalogue credit, store cards, buy-now-pay-later offers and overdrafts.

1.4 In July 2017, we saw potential harm to consumers who turn to high-cost credit because they do not have access to mainstream credit due to:

- lower cost credit not always being available to those who need it
- lack of awareness of the credit and non-credit alternatives

1.5 We have set out the key barriers to the access to and further development of alternatives to high-cost credit, and reported on our findings and the actions we have taken to help promote them.

What we cover

1.6 We have built up a detailed picture of the consumer need for and availability of lower cost credit and other alternatives that may meet some consumers' underlying needs.

1.7 In **Chapter 2** we discuss that three million consumers use high-cost credit with demand often driven by the need for essential household goods.

1.8 However, there are often alternatives to using high-cost credit such as loans from credit unions or lenders with social objectives. Other alternatives may sit outside our regulatory remit. For example, schemes designed to deliver high-quality second-hand goods might be a cheaper option for some consumers. These alternatives are explored in **Chapter 3** and **Annex 2**.

1.9 We see opportunities to improve the market for alternatives to high-cost credit and make several suggestions in **Chapter 4**. Among others, we recommend in the longer term that HM Treasury consider if there is value in reviewing the credit union and society legislation. We believe that many locally based organisations such as RSLs or local authorities are well placed to play an active role in signposting consumers to these alternatives.

1.10 In **Chapter 5**, we summarise our work to improve the regulatory environment for organisations involved in the provision of alternatives to high-cost credit. This includes our Guidance for RSLs, our Credit Information Market Study and the recent amendment by HM Treasury to the definition of credit broking.

1.11 One of our central aims is to improve consumer awareness of both credit and non-credit options. In **Chapter 6**, we encourage the Money and Pensions Service, RSLs and others to actively signpost consumers to alternatives to high-cost credit.

1.12 We want alternatives to high-cost credit to be increasingly available to consumers. In **Chapter 7**, we explain how we foster innovation and encourage new market entrants to increase the availability of lower cost credit alternatives through FCA Innovate and our Authorisations function.

1.13 In **Chapter 8**, we summarise how we are working with Government and other stakeholders to provide expertise on and support for their initiatives on alternatives to high-cost credit.

1.14 The demand for and availability of alternatives to high-cost credit can only be understood within the broader economic and social context in which they operate. We consider that we can best contribute by helping to facilitate the actions of other organisations for the benefit of consumers. We explain this further in **Chapter 9**.

1.15 A list of the actions we will take and recommendations we make is given in **Annex 1**.

Our approach and next steps

1.16 Where we can make a difference to the availability or awareness of alternatives, we will do so in the ways set out in this paper. Taking account of our limited remit, we are not the most appropriate authority to address some of the challenges around alternatives to high-cost credit. In many instances others, including the Government, charities, local authorities and RSLs can take the lead more effectively.

1.17 If you have any comments on this paper or want to get in touch with us please contact us at alternatives-to-HCC@fca.org.uk

2 Demand for high-cost credit and essential household goods

2.1 In this chapter, we explore the consumer needs for high-cost credit and essential household goods.

Demand for high-cost credit

Consumer need and drivers

2.2 Three million consumers use high-cost credit in the UK (excluding overdrafts). Many have low credit scores, low incomes and cannot access mainstream forms of credit. Our 2017 Financial Lives Survey showed that people displaying characteristics of potential vulnerability are twice as likely to use high-cost credit as other UK adults.

2.3 Income shortfalls, unexpected expenses and actual or perceived limited access to mainstream credit can lead to the use of high-cost products.

2.4 The need for credit is often immediate, so consumers may be unable to shop around. Repayments for high-cost credit are often weekly, which can suit many low-income consumers' budgeting.

2.5 Our 2017 Financial Lives Survey revealed that 13% of UK adults have no cash savings. At the time of applying for their last payday loan, 76% of consumers accepted had no accessible savings. Those with savings had an average of £177.

2.6 High-cost credit is often taken out to pay for living expenses and bills, deal with unexpected events (such as funeral costs or replacing broken household goods) but also to cover expected costs such as festive periods and school uniforms. Other common reasons include addiction and illness.

2.7 Some consumers are one-off users of high-cost credit, but others rely on it to manage their finances longer term.

2.8 Our high-cost credit work has identified harms and trends across different sectors. Our data shows that product use varies according to income and credit score, with those on the lowest incomes holding more products. Repeat borrowing and long-term debt is common.

2.9 We found that between 2015 and 2017 the credit scores of people who used high-cost credit products worsened significantly, confirming that users of high-cost credit are often financially vulnerable.

Wider factors

2.10 Demand for high-cost credit can be affected by many political, social and economic factors and needs to be viewed in the context of this complex and evolving environment. For example, we look at income levels and employment trends because of their potential impact on consumers and their need for credit.

2.11 One recent development is the growth in the number of consumers employed in the 'gig economy' or on zero-hours contracts. Under both types of arrangement, there is no guaranteed income, which can lead to unpredictable personal finances and periods of a shortfall in income where, in the absence of savings, some may need to turn to credit to bridge the gap.

2.12 Our engagement with debt charities and other stakeholders indicates that some consumers are experiencing challenges around how to manage Universal Credit (UC).

Demand for essential household goods

2.13 For some consumers, the need for credit is driven by the need for essential household goods, such as a fridge, washing machine or bed, with some consumers turning to high-cost credit providers, such as rent-to-own (RTO) firms. Other ways of acquiring essential household goods may be suitable alternatives to credit.

2.14 Consumer need for essential household goods may be acute when moving home because many items may be required at once. New social housing tenants may struggle to furnish and decorate their new homes as most are let unfurnished, frequently without floor coverings or decoration.

2.15 Consumers on low incomes living in the private rental sector may also find it difficult. While most rental properties are let with floor coverings and basic white goods, it is not uncommon for up to 3 months' rent to be required before moving in.

2.16 When an essential item breaks down consumers with low disposable income and savings may turn to high-cost credit providers that can provide significant sums of credit at short notice, as replacing goods can cost hundreds of pounds.

3 Availability of alternatives to high-cost credit

3.1 In this chapter, we consider possible sources of alternatives to high-cost credit that may be available to consumers who find it difficult to access mainstream credit.

3.2 We include examples which bring to life the types of alternatives we describe. In using these examples, we are neither promoting nor endorsing the products, services or organisations offering them. The information contained in the examples has been taken from the websites of the organisations concerned as of 18 July 2019.

Availability of lower cost credit

Credit unions

3.3 Credit unions are financial co-operatives owned by and run for the benefit of their members, who are their customers. There are over 400 credit unions taking deposits from and making loans to over 1.8 million members across the UK. Credit unions are lending around £1.5bn to their members.

3.4 Credit union members are mainly individuals who must fall within the common bond of the credit union. In the UK, most common bonds are based on locality, employment or occupation.

3.5 In Great Britain (GB), credit unions are registered under the Co-operative and Community Benefit Societies Act 2014 as a credit union under the Credit Unions Act 1979 ('society legislation'). In Northern Ireland (NI), The Credit Unions (Northern Ireland) Order 1985 is the principal legislation.

3.6 Credit union legislation sets out what credit unions can do, and limits their activity to the fulfilment of certain statutory objects. It also caps the amount of interest credit unions can charge on loans. In NI, they can charge up to 1% interest per month (around 12.68% APR), in GB up to 3% interest per month (around 42.6% APR).

3.7 The credit union sector is polarised between a small number of large credit unions, and many smaller credit unions. This polarisation partly reflects the competing approaches. Some credit unions choose to operate among a small membership base where members are closely connected to each other. Others serve increasingly large numbers of members.

3.8 These different approaches help to explain why there are now 9 organisations representing the credit union sector, 7 of which are in GB. We believe this fragmentation may affect the sector's ability to influence and to help eliminate any barriers to the growth of the sector.

3.9 The sector faces several challenges as an alternative to high-cost credit. Offering credit at up to 3% interest per month may not enable credit unions to provide for higher risk consumers. However, raising the legislative cap on interest may not solve this problem as many credit unions may not be willing to lend to higher risk consumers.

3.10 Some credit unions rely heavily on branch presence and face-to-face customer relationships. Though some credit unions do have a strong online presence, we see few with the capacity to move to the instant or near-instant loan decisions typically associated with high-cost or mainstream credit. In the short term at least, the capacity of credit unions to make credit available to a significant portion of high-cost credit users is limited.

3.11 However, there is some potential within the existing framework for credit unions to grow and innovate. The larger credit unions have shown that there is scope for growth without the need for any legislative change.

3.12 There are, however, instances where the legislative framework presents a challenge to credit unions who are trying to innovate and broaden the range of products and services they offer.

3.13 Significant liberalising measures have been introduced in the legislation over time. However, we believe that, in the longer term, to facilitate the growth of larger credit unions (who may be more inclined to lend to those who would otherwise use high-cost credit) HM Treasury should consider if there is value in a review of credit union and society legislation. A review led by HM Treasury, involving the FCA and Bank of England could, for instance, consider the ways in which credit union objects and powers are framed; and the way in which membership restrictions operate. This may help to bring greater clarity and further liberalisation to the sector in terms of the products and services they are able to offer. Any review would of course need to be supported by evidence from across the sector.

3.14 We are clear any provisions that would enable credit unions to grow or provide new products and services would need to be accompanied by an appropriate and robust regulatory regime.

Community development finance institutions

3.15 CDFIs are not-for-profit lenders which provide credit to individuals, small businesses and social enterprises who find it difficult to access credit from mainstream lenders. Established for social purposes, they are usually rooted in the local community.

3.16 Most CDFIs focus on lending to small businesses to improve local employment. A small number provide consumer loans to address the need for credit among low-income consumers with poor credit ratings. Some also offer financial education, money and budgeting advice, and debt advice.

3.17 Because personal lending CDFIs serve a segment of the market which is outside the risk appetite of mainstream lenders and some high-cost lenders, their target customer market is relatively high-risk with a corresponding risk of default.

3.18 CDFIs are not subject to any interest rate cap so they reflect risk in the cost of the credit they provide. Loans are often offered at rates above 100% APR and, in some cases, over 200% APR. Although these rates are high, many products offered by high-cost lenders have interest rates which frequently exceed 1000% APR. This means CDFI loans are lower cost options for some consumers.

3.19 There are currently around 50 CDFIs in the UK of which 9 offer personal loans to consumers. In financial year 2017/18, they lent approximately £26 million to individuals in 45,903 loans.

3.20 We provide examples for illustrative purposes.

Street UK
Street UK offers personal loans of between £200 and £1000 for up to 52 weeks, at 180% APR for new customers. To be eligible for a Street UK loan, consumers must have an income of over £100 per week and live in the West Midlands within 15 miles of its branches. As repayments must be made by direct debit, consumers must have a suitable bank account.

Fair Finance
Fair Finance offers personal loans for sums of £100 to £1500 for periods of 6 to 18 months, at 153% APR for new customers. It offers loans to consumers from throughout the UK.

3.21 Personal lending CDFIs would need to overcome several barriers to enable them to increase their provision of loans as alternatives to high-cost credit. They do not collect or hold deposits, making them dependent on grants and loans from charitable trusts, public bodies (e.g. local authorities, Big Lottery Fund), and/or philanthropic donors. This means they are not always self-sustaining, and need to secure further funding.

3.22 The knock-on impact of this is that banks may not be willing to provide CDFIs with revolving credit facilities. Without these facilities, CDFIs may be unable to meet periods of heavy demand. Unless they can be perceived as viable and self-sustaining businesses, they are unlikely to attract the investment they need to expand their activities and lend to more consumers.

3.23 The CDFI business model relies on face-to-face contact with consumers and a strong branch presence with limited automated decision-making, meaning that overheads and costs per loan are comparatively high, as loans are often for small sums. These costs are reflected in the cost of credit.

3.24 At the same time, CDFIs try to keep the cost of credit low to offer the best possible deal and maximise social impact. If CDFIs were to increase the cost of credit further to ensure they can operate on a commercial basis and become self-sustaining, they may find it difficult to meet their social impact objectives.

3.25 It is challenging to reconcile the need for sustainability, the high costs inherent in the business model, and interest rates which provide financially excluded consumers with access to credit priced at a level below that of high-cost credit providers. We therefore do not consider it likely that CDFIs will be able to make credit available to a significant portion of high-cost credit users.

3.26 Interventions that may increase the capacity of CDFIs to provide credit as an alternative to high-cost credit may involve subsidies or options to create incentives for others to invest in CDFIs, for example by offering first loss guarantees to reduce the risks associated with investment or creating tax incentives for investors. Any public subsidies would need to comply with relevant state aid law.

Combining credit and essential household goods

3.27 Retail finance helps consumers purchase the larger household goods they need when they are unable to pay the full price upfront. However, the terms on which retail finance is offered may mean that it is not available to many consumers with low incomes, low credit scores and/or a thin credit file (where there isn't enough information on a file for a provider to make a lending decision).

3.28 In recent years, a small number of providers (often with social objectives) have started to offer products similar to retail finance made available to a wider range of consumers as an alternative to high-cost credit.

3.29 Although the greater risk to the creditor is reflected in the higher cost of the credit, the cost to consumers remains lower than high-cost forms of credit such as RTO. As with traditional retail finance, the credit is provided for a defined purpose, namely to finance the purchase of specified goods.

3.30 In recent years, we have also seen some credit unions partnering with a supplier of furniture/household goods. These arrangements differ slightly from the models above in that the credit unions (and not the retailer) are the main consumer-facing party. They promote the possibility of accessing this form of credit as a lower cost alternative to RTO.

Availability of alternatives to credit

3.31 In this section, we examine the ways in which consumers may be able to access funds and household goods without taking out credit.

3.32 Several grants and loan facilities exist to help consumers in immediate need of financial assistance. Some are funded by the state, and others are made available by housing associations and charitable organisations. Funding available from each of these sources is limited so the eligibility criteria are often narrow.

3.33 Budgeting Loans or Budgeting Advances are available from the Government to consumers in some circumstances who have been in receipt of income-related benefits for at least 6 months.

3.34 Scotland, Wales and Northern Ireland each operate welfare assistance schemes for their residents. Awards from the Scottish Welfare Fund are made by local authorities in line with statutory guidance issued by the Scottish Government. In Wales and Northern Ireland, the schemes are administered centrally. We summarise the current schemes in Annex 3.

3.35 Some local authorities in England have welfare assistance schemes but some do not. Local authorities can decide what their scheme is used for, who is eligible and how it operates.

3.36 We show 2 examples of local authority assistance schemes in the boxes below.

North Yorkshire County Council: Local Assistance Fund
The fund aims to provide practical support for vulnerable adults who are moving into or seeking to remain within the community, and to help families under great pressure to stay together. Examples of vulnerable adults who are eligible for assistance under the fund include the homeless, victims of domestic abuse, carers and those with disabilities and mental health problems.

The fund can cover essential household goods that are critical to the needs of the applicant or their family, and necessities such as utilities, food and clothing. Awards are made in the form of goods or vouchers.

People may apply for up to 2 awards of emergency food and/or utility top-ups in any 12-month period. A maximum of 2 other items provided under the fund, can be awarded within the same period, only 1 of which may be white goods.

Tower Hamlets Council (East London): school clothing grants
These grants are available to help with the cost of a school uniform for children aged 11 who are moving from primary to secondary school. 1 grant is payable during a child's school life.

To qualify, the parent or guardian must be receiving either an income-related benefit, Pension Credit Guarantee Credit or have an annual income below £15,860 or be in receipt of support from the National Asylum Support Service.

3.37 Some RSLs set aside money that can be used to provide help and support to particularly vulnerable tenants with obtaining essential household goods and/or with basic needs associated with jobs and training opportunities.

3.38 We show 2 examples below.

Estuary Housing Association: Welfare Fund
The Welfare Fund seeks to assist tenants who are having difficulty managing their financial obligations, with a view to sustaining tenancies. Grants can be used for essential items or equipment and services to support basic living needs, employment or training. Awards will only be made where a tenant cannot secure funding elsewhere. There is a limit of £300, which can be increased to £500 in emergency circumstances. Upon approval of an application, the items are ordered and delivered. Awards are limited to 1 per household every 12 months.

Octavia Housing Association: hardship grants
The grants are for individual tenants who are experiencing financial hardship or who have education or training needs. The grant can be up to £400. They are available to cover the cost of essential household items such as beds, white goods and basic decoration. Grants can also be used to help with education or training costs.

3.39 Similarly, some charities give grants to help individuals and/or families with the costs of white goods, furniture, decorating or other matters.

3.40 The boxes below show 2 examples of charities offering grants.

Glasspool Charity Trust: grants
The Glasspool Charity Trust is a national charity which makes small grants to individuals in financial hardship. The types of needs considered for grants have been prioritised, with those at the top of the list being white goods, beds/mattresses and bedding, and clothing, including school uniforms.

There are no restrictions on the type of beneficiary who may apply, but applications can only be made by eligible organisations on behalf of individuals who are legally resident in the UK. These include statutory organisations, charities, social enterprises, and community benefit societies (or private companies) that provide or fund support services such as health and social care, rehabilitation, and advice services.

Churches Together in Britain & Ireland: Hardship Fund
The Hardship Fund was set up to assist full-time international students, irrespective of their race, gender or religion, who are already in Britain and Ireland and who are facing unexpected financial problems during the final stages of their full-time first degree or postgraduate course.

Decisions on grants are made 3 times a year. The level of funding is dependent on funds raised. A grant can be awarded for sums up to £1,000 per person.

3.41 There are also organisations that link consumers in need with potential sources of funding. For example, the charity Turn2Us offers an online search tool, the Turn2Us Grant Search. Internet users can use this to find out which local and national grants they may be eligible for.

3.42 The box below contains an example of a scheme which uses a crowdfunding model.

Acts 435
Acts 435 was set up to connect donors who want to help a specific cause with people struggling financially. Acts 435 facilitates this direct connection by partnering with local churches and charities. Church and charity advocates post requests online for help on behalf of individuals in their local communities. Many of the requests are to help fund essential white goods. Potential donors can see these requests on the website and choose which they wish to donate to.

Second-hand household goods and consumer hire

3.43 We summarise some available sources of second-hand household goods and consumer hire schemes in Annex 2. These are potential sources of alternatives to high-cost credit to some consumers.

4 Improving the market for alternatives to high-cost credit

4.1 In this chapter, we present conclusions on why the market for alternatives to high-cost credit is not working in a way that benefits all consumers and we make recommendations to make this market function better.

Availability of credit from lower cost lenders

4.2 We want to see credit unions and CDFIs maximise their potential for growth so that they have the capacity to offer an alternative to more users of high-cost credit. To help increase the availability of credit union loans by helping those credit unions who wish to grow we recommend that:

- HM Treasury consider in the longer term if there is value in a review of credit union and society legislation to facilitate the growth of larger credit unions
- credit union representative bodies (particularly within Great Britain) work closely together to speak with a more unified voice

4.3 With regard to CDFIs, we recommend that:

- Fair4All Finance (see Chapter 8) considers using some of the £55 million of dormant assets funds to help personal lending CDFIs become more self-sustaining and improve consumer outcomes, e.g. by making more funds available for onward lending or reducing the cost of credit
- the Government considers potential options for incentivising investment in personal lending CDFIs
- personal lending CDFIs explore the possibility of working more closely with credit unions with a view to receiving referrals of members who are not eligible for a credit union loan or whose credit application has been declined; this should be subject to the credit union holding a credit broking permission and the broking activity being compatible with one of the credit union statutory objects

4.4 In Chapter 7, we set out how we will contribute to increasing the availability of lower cost credit by fostering innovation and encouraging new market entrants.

Availability of essential household goods

4.5 Overall, we consider that the availability of second-hand household goods is good for some. However, when consumers do not have the necessary funds to purchase them, they remain inaccessible.

4.6 To enhance the reliability of the main sources of second-hand goods, we welcome further initiatives by retailers and manufacturers of white goods, furniture and other essential household items that:

- make unwanted stock (for example customer returns and display models) available to reuse centres, charities and other distributors of second-hand goods
- promote to their customers the importance of recycling or reusing unwanted household goods and make it as simple as possible for them to do so, for example by offering 'old for new' collection options

Awareness of and information about alternatives to high-cost credit

4.7 A key factor in the decision to take out high-cost credit is often a lack of awareness about other options. Consumer awareness of credit unions and CDFIs is relatively low, especially when compared to many high-cost lenders.

4.8 For these consumers, buying second-hand goods may be a suitable alternative to taking out credit. However, we have found that second-hand goods are not an attractive option for some consumers. This may be linked to a perception that second-hand goods are of inferior quality or to a lack of information about where they can be obtained locally.

4.9 Consumers' awareness of alternatives could be improved by more relevant and timely information. This should cover both general information about the types of providers, for example credit unions and reuse centres, and more specific information about providers in the local area.

Critical role of front line service providers

4.10 Most providers of lower cost credit or second-hand household goods are based locally. They tend to have limited reach and aren't linked to a national brand with marketing capacity. Against this background, we welcome the work done by many organisations to help match (or 'connect') consumers with potential sources of lower cost credit or goods.

4.11 These organisations have contact with consumers who are likely to have a need for credit and/or essential household goods. They can play a key role in assessing the needs of the individual and signposting them to further help and support that meets these needs. They include:

- **Registered social landlords:** We identified RSLs as key facilitators early on in this work. Our Guidance for RSLs on the activities which are likely to be credit broking highlights the important function they can play in helping tenants to find lower-cost credit.
- **Local authorities:** Local authorities sit at the centre of the local community and have a key role in promoting economic growth in the area. With responsibility for essential and support services they are a unique position to communicate with and signpost consumers to relevant services.
- **Charities:** Charities know their users well and are well-placed to view the needs of individuals beyond the help they may themselves be able to provide.
- **Consumer bodies:** Consumer groups can also be a source of trusted advice as they are usually independent and act in the best interests of consumers.

4.12 Organisations who develop relationships with one another can enhance consumer outcomes. By working closely together to signpost to one another, an integrated approach to service provision ensures the needs of the individual are met in the best available way.

Recommendations and next steps

4.13 We would like to see improvements in consumer awareness of and information about lower cost credit, alternatives to credit and services which complement these options, for example money advice, debt advice and other support services.

4.14 We recommend that front line service providers, such as those mentioned above, consider making available to their service users simple information with contact details of key organisations at national and local level (where this is not already the case) who can help them by providing potential options/sources of alternatives. These could include lower cost credit providers, money advice centres, debt advice organisations, reuse centres, charity shops and local authority services. The information could be used both online and in paper format, as appropriate.

4.15 To facilitate this, we will compile a core list of national contacts as well as suggestions for the types of local organisations to which front line service providers could consider signposting consumers and potentially developing relationships with. We will provide the list to relevant and interested parties, including trade bodies for sharing with their members, this year.

4.16 Front line service providers should be aware that they may need to obtain a credit broking permission from us if they wish to refer consumers to individual credit providers, for example the local credit union.

4.17 In the following chapters, we make further suggestions for how we and other relevant organisations, such as the Money and Pensions Service (MAPS), can contribute to improving consumer awareness of credit and non-credit alternatives to high-cost credit.

4.18 We do not expect alternatives to replace high-cost credit in its entirety. No solution can ensure everyone has access to lower cost credit or an appropriate alternative.

4.19 Taking out credit will not be in the best interests of some. Instead, we want everyone to be able to access the solution or solutions which is/are most appropriate to their circumstances.

5 Regulatory environment

5.1 We set out the work we have done to improve the regulatory environment for organisations involved in alternatives to high-cost credit. We cover:

- our new fees rules for community finance organisations (CFOs) and credit unions
- the regulatory perimeter for credit broking by RSLs
- the Credit Information Market Study, which we launched in June 2019

New fees rules for community finance organisations and credit unions

5.2 With effect from April 2019, we have extended our existing fees concession for CFOs and credit unions by exempting them from payment of all FCA annual consumer credit fees.

5.3 CFOs provide alternative finance. They are defined as community benefit societies, registered charities or community interest companies limited by guarantee. Many CDFIs meet the definition of a CFO and so benefit from the new rules.

Regulatory perimeter for credit broking

5.4 In this section, we report on our work to raise RSLs' awareness of our Finalised Guidance on helping tenants to find alternatives to high-cost credit. We also consider the recent legislative amendment to the definition of credit broking.

Finalised Guidance 18/6 for social landlords

5.5 In December 2018, we published Finalised Guidance for social landlords on helping tenants find alternatives to high-cost credit (FG18/6). It clarifies that referring tenants to credit providers is likely to constitute the regulated activity of credit broking, which requires FCA authorisation.

5.6 We have established a specialist team (RSL@fca.org.uk) to provide support to social landlords who may need to be authorised for credit broking. We have worked with social landlords and their representative bodies to raise awareness and understanding of the finalised guidance.

5.7 We would like to thank the 4 housing trade bodies for their willingness to engage with us on the guidance, and for facilitating our engagement with their members in a variety of ways including presentations, website articles and member newsletters.

Types of questions we have received

5.8 The questions we have received fall broadly into 3 categories:

5.9 **RSLs with questions about their activities and permissions:** We have provided steers to RSLs seeking our help to determine whether their current or planned activities are likely to be credit broking. Several RSLs have submitted applications for authorisation or Variations of Permission to add credit broking to their current permissions that we have processed as quickly as possible. Some Variations of Permission have been completed in less than a week.

5.10 The feedback we have received from RSLs is that they are pleased with the support they are receiving from us, and find that the process is clear and straightforward.

5.11 **Trade bodies and credit unions expressing concerns:** Some trade bodies and credit unions have expressed concerns about the impact of FG18/6 on credit unions' relationships with RSLs, namely that our guidance has resulted in fewer referrals to some credit unions as some housing associations have become unwilling to continue promoting credit unions to their tenants.

5.12 Our guidance was intended to clarify the existing law on credit broking, and not to disrupt existing relationships.

5.13 Importantly, compliance with the law should not mean that the activity in question must be stopped. Instead, RSLs (and any other entities) should seek permission for credit broking or discuss with the credit provider whether they would be willing to make them an Appointed Representative. We recognise that this may be daunting, and so we are providing help and support.

5.14 **Questions from RSLs and charities who have received communications from credit unions:** Some RSLs and charities have told us they have been told by credit unions they work with that they must terminate their arrangements due to new FCA rules on credit broking. We are concerned about this because they may be receiving incorrect information which:

- presents the guidance as new FCA rules, rather than guidance on pre-existing statutory requirements
- doesn't include an assessment of whether the activity in question is likely to be credit broking
- does not advise of the option of applying to us for credit broking permissions

5.15 We would suggest that any RSL, charity or other entity that has been told to stop signposting, referrals or any other kind of cooperation to contact us for help and advice at RSL@fca.org.uk. Neither the law nor our guidance prohibits these kinds of activities but it is necessary to obtain the relevant FCA permission.

Amendment to definition of credit broking

5.16 In CP18/35, we noted that we have been discussing with HM Treasury the feasibility of changing the regulatory boundary for RSLs. We also welcomed the announcement in the Budget in October 2018 to simplify regulation to make it easier for RSLs to direct tenants to alternatives to high-cost credit, and encouraged the Government to bring forward the necessary legislation as soon as practicable.

Exclusion from 'credit broking'

5.17 We have continued to work with HM Treasury to identify the most appropriate scope of the change. On 2 July 2019, HM Treasury laid a Statutory Instrument (SI) before Parliament which will amend the Regulated Activities Order 2001 (RAO) to exclude RSLs from needing FCA authorisation for certain types of credit broking to some credit providers. It will enter into force on 23 July 2019.

5.18 The exclusion applies only where:

- the activity concerned is effecting an introduction of an individual who wishes to enter into a credit agreement
- the introduction is to a credit union, community benefit society, registered charity (or subsidiary of a registered charity), community interest company limited by guarantee or subsidiary of an RSL, and
- the introduction is provided fee-free, i.e. the RSL receives no fee (which includes pecuniary consideration or any other financial consideration)

5.19 Any credit broking activities by RSLs which do not fall within the terms of this or any other exclusion continue to require authorisation. We welcome this amendment to the RAO as it facilitates the introduction of consumers by RSLs to credit unions and CFOs offering credit.

5.20 The legislative change will help RSLs to build on the good practice that already exists by encouraging the growth of existing and new local partnerships between RSLs and providers of lower cost credit. This will play a part in improving social housing tenants' awareness of the available options.

Consequential amendments and our approach

5.21 FG18/6 remains relevant to RSLs because those carrying out credit broking activities which do not fall within the terms of the exclusion continue to require authorisation as credit brokers. However, we recognise that our guidance needs to be updated to reflect the recent legislative change.

5.22 We will review the guidance and if necessary consult on any changes. We will also review the guidance provisions on credit broking contained in our Perimeter Guidance manual (PERG) and, if necessary, consult on any changes to align them with the amended definition of credit broking.

Next steps and recommendations

5.23 Going forward, we will:

- continue to help RSLs with their questions about credit broking and FG18/6, including whether they require authorisation under the amended RAO
- continue to process applications by RSLs for credit broking permissions quickly
- review PERG and FG18/6 in light of the July 2019 legislation amending the RAO, and consult on any proposed changes as necessary

5.24 We recommend:

- that RSLs consider whether any of the activities they carry out or wish to start carrying out may be credit broking within the meaning of the RAO, as amended by

SI 2019/1067, and, if so, contact us at RSL@fca.org.uk to discuss whether they may require credit broking permissions
- that the National Housing Federation considers updating its 2017 Guidance for Housing Associations on Consumer Credit Authorisations in light of FG18/6 and the recent amendment to the RAO

Credit Information Market Study

5.25 In our 2018/19 Business Plan we announced that we would carry out a market study into credit information, which we launched in June 2019.

5.26 Consumers' credit information affects how likely they are to be able to access a range of financial services, including loans and credit cards. Credit reference agencies (CRAs) play a key role providing this information to inform firms' assessments of credit risk and affordability. If information is not shared effectively or is of poor quality, consumers may experience harm through inappropriate lending decisions or restricted access to credit.

5.27 In CP18/35 we considered whether there were barriers to providers of lower cost credit, including credit unions and CDFIs, in terms of accessing appropriate credit information from CRAs. We set out that the issues for these providers are broadly similar to those identified in the wider credit market, but may be particularly relevant for consumers who have a limited credit history. This may affect how providers of lower cost credit are able to make effective use of credit information provided by CRAs.

5.28 Our market study will consider these issues and build on the responses to our consultation on Assessing Creditworthiness in Consumer Credit, where we invited views on firms' access to, and use of, credit information including the coverage, timeliness and consistency of data and products provided by CRAs. We will collect evidence to understand how well the market for credit information works and, if appropriate, identify potential remedies.

6 Consumer awareness of alternatives to high-cost credit

6.1 Given there is often a lack of awareness of alternative options amongst high-cost credit users, one of the central aims of our work to promote alternatives to high-cost credit is to improve consumer awareness of both credit and non-credit options.

6.2 We said that we would do further work to assess:

- the availability of online information on lower cost credit options
- whether regulated firms should signpost consumers to lower cost credit when rejecting loan applications
- how RSLs might play a greater role in raising tenants' awareness of sources of essential household goods

6.3 In this chapter, we report on our findings, make recommendations and set out our next steps.

Online information on lower cost credit options

6.4 Improving consumer awareness is a key aspect of promoting alternatives to high-cost credit. We committed to consider whether there is a need for more online information on lower cost credit options.

6.5 We have evaluated current sources of online information looking at over 200 websites covering lower cost credit options to determine whether the available information is of sufficient quantity and quality. We also looked at its accessibility. Our findings are set out below.

6.6 The overall **quantity** of online information about credit union loans is sufficient. There is, however, scope for increasing the quantity of online information about CDFI personal loans.

- The Money Advice Service (MAS) website, now managed by its successor the Money and Pensions Service (MAPS), offers extensive information on alternatives to high-cost credit options, covering both credit union and CDFI loans, as well as other more general advice on taking out credit.
- Its interactive payday loans online advice tool is helpful for consumers who are considering the alternatives to payday loans and for those consumers who may have limited awareness of these other options.
- Many webpages provide examples comparing the total cost of borrowing and/or typical APRs between credit union and CDFI loans versus payday and home-collected loans. This information could help consumers compare the total cost of borrowing between the presented credit options in terms of pounds and pence.
- One consumer organisation's website includes information on credit union loans alongside best-buy tables for payday loans, highlighting that credit union loans

could be a cheaper and/or more appropriate alternative to the loans displayed. This information could help raise consumer awareness of credit unions.

6.7 A lot of information about lower cost credit options could be made more prominent and **accessible**. The most accessible webpages are those that can be easily found from the homepage, for example via menus or headings such as 'Money advice', 'Help with your borrowing' or 'Getting the best deal on loans'.

6.8 Websites that incorporate features such as text-to-speech software and user-friendly navigation are more likely to increase accessibility for some consumers. Some of the sites we looked at provide features such as keyboard navigation and assistive technology navigation to ensure accessibility for consumers with disabilities.

6.9 The **quality** of signposting of helpful information about the characteristics of credit union and CDFI loans could be improved by including illustrative and interactive information to increase consumer awareness of lower cost borrowing options.

6.10 Some RSLs with credit broking permissions signpost tenants to local credit unions or CDFIs. Others direct consumers to the online search tool 'Find Your Credit Union'. RSLs who do not provide online information on lower cost credit options often signpost tenants to their in-house money advice services.

6.11 Most online information providers within our sample also signpost consumers to MAS' website, either on the relevant informative webpages or on other webpages under the relevant headings as mentioned above. The MAS website is almost always suggested as a way for consumers to obtain help on taking out loans.

Recommendations

6.12 The MAS website offers detailed information on lower cost credit options as well as more general advice on taking out credit. Most other providers of online information signpost consumers to MAS' website for general money advice as well as advice specific to loans.

6.13 The newly-formed Money and Pensions Service (MAPS), as the successor to MAS, is well placed to raise consumer awareness of alternatives to high-cost credit via online channels by acting as a key source of information. We look forward to working with MAPS on this issue.

6.14 Information provided by MAPS could cover both credit and non-credit alternatives such as furniture reuse schemes. As the market changes MAPS could consider whether existing information could be developed, for example by:

- comparisons of generic/typical borrowing costs between different credit options (for example, the cost of an overdraft, credit card, credit union and CDFI loan)
- linking pages on payday loans to those on alternative sources of credit
- promoting the interactive online tools to customers who may be vulnerable, and also more widely to local authorities and RSLs, for example via their trade bodies

6.15 We recommend that RSLs, local authorities, relevant charities and consumer bodies consider how they can effectively signpost consumers to where they can find further information, for example to MAS' website (which will become MAPS' website).

Information for consumers declined credit

6.16 We committed to consider whether a requirement on firms to signpost consumers to lower cost credit providers and other sources of support when declining loan applications would be helpful.

6.17 We have considered different options including regulatory and voluntary solutions.

6.18 We do not believe a regulatory intervention to require consumers to be referred to a lower cost credit provider, at the point of having a loan declined, is the right solution for these reasons:

- If a consumer has been declined by a lender following a creditworthiness assessment it may mean they are unlikely to be approved for lending by a lower cost provider.
- Unless the firm making a referral knows and understands the circumstances of the consumer, including the reasons for any decline, it is difficult to know whether a referral to another lender would be beneficial.
- Making referrals to other lenders would require the referring firm to have a broad understanding of the lending criteria of other lenders. If a consumer does not meet the lending criteria of the firm they are referred to then any application would be likely to be declined.
- Having not been able to access credit from the lender, consumers need to assess their remaining options, such as seeking debt advice, before deciding whether to reapply for credit.
- Providing consumers with information about a lower cost alternative does not necessarily result in them choosing that alternative.
- The firm making the referral may need to have specialist knowledge of alternative lenders in the consumer's local area. The referral by a lender to another credit provider would likely require the lender to hold a credit broking permission.

6.19 We have looked at whether an industry-led solution might be more appropriate to meet consumers' needs. This would allow for flexibility, with firms being able to consider what would work for their own procedures, customer base and delivery channels.

6.20 One model that we are aware of is operated by Lloyds Banking Group (LBG), and involves bank branches signposting some consumers to a local credit union. LBG branches hold leaflets that feature general information about credit unions with a space for the branch to add the name and contact details of the local credit union. The leaflet also features details of charities that provide money advice and debt advice charities. Front line branch staff give the leaflet to consumers in the context of a broader discussion about their options if they think the individual may benefit from being signposted to a credit union.

6.21 Schemes like these can benefit consumers, firms and communities by increasing awareness of credit unions and wider services at all points in the customer journey, not just when a loan is declined. We recommend that other credit providers consider this type of signposting, where they have any necessary credit broking permission, and suggest that industry trade bodies consider how they could facilitate this to either named providers or alternatives more generally.

Role of registered social landlords helping tenants to access essential household goods

6.22 In November 2018, we brought together housing associations and providers of household goods. One of the main issues discussed was how to encourage RSLs to raise tenants' awareness of non-credit options, for example by signposting them to local providers of household goods.

6.23 Since then, we have engaged further with RSLs and representative bodies to better understanding the role they play in helping their tenants to access essential household goods. We have also reviewed existing research by academics, charities and social enterprises.

RSLs

6.24 RSLs have a key role connecting tenants and various service providers. They are keen to provide additional support services for their tenants that go beyond their core remit of providing and managing housing such as help with opening a bank account, provision of money and/or debt advice, and help sourcing household goods.

Types of help for tenants

6.25 The main ways in which RSLs help tenants in unfurnished accommodation to gain access to household goods are:

- **Signposting:** Giving the tenant contact details of providers.
- **Referrals:** Where a relationship or agreement exists between the RSL and the provider.
- **Grants:** Making grants available to tenants need.
- **Own scheme:** Setting up their own scheme to meet the needs of their tenants for essential household goods.

Helping tenants to source low-cost household goods can benefit RSLs as well as tenants. This is because it supports RSLs' own aims and objectives beyond the promotion of social and financial inclusion.

6.26 In 2007, the National Housing Federation and the Furniture Re-use Network entered into a partnership agreement and published a guide which aims to promote the advantages of RSLs working together with local reuse schemes. It includes many case studies showing different models of collaboration.

6.27 For many RSLs, signposting to local providers may be the most suitable option as it is the simplest to implement. We encourage RSLs to continue to do this. In Chapter 4 we committed to compiling a list of online search tools and national contacts. RSLs could add local providers of household goods to this list by using the Furniture Re-use Network's online search tool.

How information is provided

6.28 Signing up new tenants offers an opportunity for RSLs to introduce them to the range of help and support available. Some RSLs include information in their welcome packs about local sources of essential household goods. This aims to direct information to tenants who are particularly likely to benefit from it. Some also make tenants aware of their options at other points of need, for example when a household item breaks down.

6.29 Relevant and helpful information about sources of essential household goods is also provided by some RSLs as part of more general awareness-raising activities, for example in the context of budgeting or money advice. For example, the Social Publishing Project publishes 'Quids in!', a quarterly magazine containing money management tips, which is purchased by RSLs (as well as by other organisations) and distributed free to their tenants.

Recommendations

6.30 We recommend that:

- housing representative bodies consider how they can best promote the exchange of information between RSLs on experiences with helping tenants to access to household goods
- the National Housing Federation and the Furniture Re-use Network consider reviewing and updating their 2007 guide to partnership working
- housing representative bodies consider (individually or collectively) whether to develop guidelines or recommendations for RSLs to encourage them to provide information to tenants about sources of low-cost household goods.

7 Encouraging innovation

7.1 We want to foster innovation and encourage new market entrants to increase the availability of alternatives to high-cost credit. Through FCA Innovate and our Authorisations function, we work with firms looking to provide products to consumers who might use high-cost credit, as well as firms looking to help consumers budget and develop financial resilience.

FCA Innovate

7.2 We understand that innovative firms may find it difficult to understand how regulatory requirements apply to their business models. Through FCA Innovate, we strive to help give firms the regulatory certainty they need to develop and innovate.

7.3 FCA Innovate supports businesses, including credit unions and CDFIs, through a range of services. These include the Regulatory Sandbox, Direct Support and the Advice Unit.

7.4 Since we started to raise public awareness of the need for increased availability of alternatives to high-cost credit, we have had increased contact with firms whose propositions are related to the provision of alternatives to high-cost credit. We welcome these developments.

7.5 We encourage innovators and other businesses with innovative ideas that could help increase the availability of alternatives to high-cost credit who wish to benefit from Innovate services to contact us at InnovationHub@fca.org.uk.

7.6 FCA Innovate will attend the next bi-annual roundtable for credit union trade bodies jointly organised by the FCA and PRA in October 2019. It will discuss with credit unions how they could benefit from Innovate services when they are developing innovative propositions.

7.7 We continue to engage with Responsible Finance and delivered a similar session for their personal lending CDFI members earlier in July 2019.

Authorisations

7.8 In our Authorisations function, we continue to work with firms looking to provide offerings that are potential alternatives to high-cost credit.

7.9 Our Supervision Hub continues to offer support and guidance to firms who wish to apply for authorisation and, where required, will raise these queries with specialists in the organisation to offer deeper insight and support.

7.10 We have considered what more we could do to help firms whose propositions are related to the provision of alternatives to high-cost credit get authorised more efficiently.

7.11 We have undertaken a review of our Authorisations webpages to provide better guidance to firms on what we would expect from them at the gateway. This includes details of what policies and procedures we would need to see from lenders to ensure applications proceed as expeditiously as possible. We will publish this in due course.

7.12 On a case by case basis, we consider requests for pre-application support from firms who are looking to apply for authorisation. This includes firms seeking to provide alternatives to high-cost credit.

7.13 We are continuing to develop and improve our application process, ensuring it is as straightforward and accessible as possible, while ensuring that firms meet the minimum standard as set out in the Approach to Authorisation publication.

8 Support for other initiatives on alternatives to high-cost credit

8.1 In this chapter, we provide an update on how we have been engaging with Government and other relevant organisations.

Government initiatives

Access to 'affordable credit'

8.2 We continue to work with the Government, in particular with regard to its package of measures to increase consumer access to 'fair and affordable credit' announced in the October 2018 Budget. These are:

- a study into the feasibility of a **no-interest loans scheme**, possibly followed by a pilot phase
- creating a £2 million **Affordable Credit Challenge Fund** to promote innovative fintech solutions to the challenges faced by social and community lenders
- piloting a **prize-linked savings scheme** under which consumers who save with participating credit unions are entered into a draw to win cash prizes
- making it easier for **RSLs** to direct tenants to alternatives to high-cost credit (see Chapter 5 on the recent legislative change)

8.3 In addition, as a member of the **Financial Inclusion Policy Forum** we continue to support and engage with a wide range of stakeholders including industry, the not-for-profit sector and consumer organisations.

Other organisations

Money and Pensions Service

8.4 The new Money and Pensions Service (MAPS) will focus on improving financial wellbeing through people's lifetimes, seeking to equip, empower and enable consumers to make informed financial decisions with confidence. MAPS is currently designing its corporate plan for the 2020-2023 period and a national strategy for working with partners to be published later this year. Our ongoing work with them will reflect these publications.

8.5 MAPS is ideally placed to enable work on raising consumer awareness of lower cost alternatives to high-cost credit. We believe it can both inform consumers directly and provide good information for organisations which meet consumers, for example as a key source of information for front line service providers. We will work closely with MAPS on these matters.

Fair4All Finance

8.6 Fair4All Finance was established in February 2019 in response to the Government's commitment to allocate £55 million of funding from dormant bank accounts to financial inclusion. We support the organisation's 'first focus area' of addressing access to affordable credit by providing support and funding for the affordable credit market. We will also work with it on future projects such as supporting furniture rental through housing associations.

End High Cost Credit Alliance

8.7 The End High Cost Credit Alliance was formally launched in March 2018. The Alliance aims to bring about change 'to deliver healthy credit for all and an effective safety net for those individuals who need it'. We are particularly supportive of the area of focus which seeks to back 'the providers of fair finance across the UK with funds, investment, expertise and other needs', and look forward to learning more about the specific actions for each area of focus in the coming months.

Next steps

8.8 We will continue to support all the initiatives mentioned above with a particular focus on:

- no-interest loans scheme
- Financial Inclusion Policy Forum
- Fair4All Finance
- work by MAPS on consumer information

We consider that these initiatives have the greatest potential to make a difference to the availability and awareness of alternatives to high-cost credit.

9 Our approach to alternatives and next steps

9.1 The findings in this paper show that the demand for and availability of alternatives to high-cost credit are complex, and cannot be fully understood outside the broader economic and social context in which they operate. This wider context also raises questions about how we can best add public value on these issues.

Our approach and next steps

9.2 We set out in Our Mission 2017 how we aim to use our tools efficiently and cost-effectively to deliver the greatest public value. It is important that we are clear about where we can serve the public interest as a regulator and where the issue falls outside our remit.

9.3 Organisations which directly interact with consumers, such as RSLs, local authorities, charities and consumer bodies, are better placed to take the lead by directing consumers to sources of help that best fit their individual needs (providers of lower cost credit, essential household goods, or other support services such as money advice or debt advice).

9.4 Where we can make a difference to the availability or awareness of alternatives, we will do so in the ways set out in this paper. We consider that we can best contribute by helping to facilitate the actions of other organisations for the benefit of consumers, for example by supporting RSLs in becoming authorised for credit broking.

9.5 We will continue to work with and support the Government and others with their own initiatives, for example by providing regulatory expertise on a possible no-interest loans scheme. We will also continue to promote alternatives to high-cost credit in line with the actions set out in this paper. A list of the actions we will take and recommendations we make to others in this paper can be found in Annex 1.

9.6 The consideration of access to alternatives to high-cost credit will become an integral part of the FCA's overall work in the credit sector, reflecting the part alternatives can play in improving consumer outcomes.

9.7 We will continue to monitor the availability and consumers' awareness of alternatives with the aim of understanding how our actions, in combination with those taken by other stakeholders, have had an impact. Any impacts will need to be seen against the backdrop of our recent interventions in the high-cost credit market.

Annex 1
Overview of actions and recommendations

In this annex, we provide an overview of the actions we will take and the recommendations we make to others in this paper (see above).

Actions – what we will do

Topic	Action	By when	Paragraph
Facilitating the raising of consumer awareness	To facilitate the signposting of consumers to relevant national and local providers of alternatives by front line service providers, we will compile a core list of national contacts as well as suggestions for the types of local organisations to which front line service providers could consider signposting consumers. We will provide the list to relevant and interested parties, including trade bodies for sharing with their members.	By end of 2019	4.15
	We will work with MAPS on consumer awareness of alternatives to high-cost credit via online channels, including by looking at existing MAS information on credit and non-credit alternatives as a good source of information for both consumers and front-line service providers.	Ongoing	6.13-6.14
Credit broking by RSLs	We will maintain our dedicated RSL mailbox, and continue to help RSLs with their questions about credit broking, including whether they require authorisation under the amended RAO.	Ongoing	5.23
	We will continue to process applications by RSLs for credit broking permissions as quickly as possible (whether as new authorisations or Variations of Permission).	Ongoing	5.23
	We will review PERG and FG18/6 in light of the July 2019 legislation amending the RAO, and consult on any proposed changes as necessary.	Ongoing	5.23
Access to credit information	As part of our Credit Information Market Study, we will consider any issues relevant to providers of lower cost credit, including credit unions and CDFIs, in terms of accessing appropriate credit information from CRAs. If appropriate, we will identify potential remedies.	Ongoing	5.28
Innovation	FCA Innovate will attend the next bi-annual roundtable for credit union trade bodies jointly organised by the FCA and PRA to discuss with credit unions how they could benefit from Innovate services when developing innovative propositions.	October 2019	7.6
Authorising consumer credit providers	We will update our Authorisations webpages to provide better guidance to firms on what we expect from them when applying for authorisation as a consumer credit lender to ensure applications proceed as expeditiously as possible.	Summer 2019	7.11

Topic	Action	By when	Paragraph
Support for other initiatives	We will continue to work with the Government and other stakeholders to provide expertise on and support for their initiatives on alternatives to high-cost credit. We will particularly focus on the initiatives we think have the greatest potential to make a difference to the availability and awareness of alternatives: a no-interest loans scheme, the Financial Inclusion Policy Forum, Fair4All Finance, and work by MAPS on consumer information.	Ongoing	8.8

Recommendations to others

Topic	Addressees	Recommendation	Paragraph
Credit unions	Government	In the longer term, to facilitate the growth of larger credit unions HM Treasury should consider if there is value in a review of credit union and society legislation	3.13
	Credit union representative bodies (particularly those in Great Britain)	To work closely together with a view to speaking with a more unified voice	4.2
CDFIs	Fair4All Finance	To consider using some of the £55 million of dormant assets funds to help personal lending CDFIs become more self-sustaining and improve consumer outcomes	4.3
	Government	To consider potential options for incentivising investment in personal lending CDFIs, for example first loss guarantees and tax incentives for investors	4.3
	Personal lending CDFIs	To explore the possibility of working more closely with credit unions with a view to receiving referrals of members who are not eligible for a credit union loan or whose credit application has been declined (subject to the credit union holding a credit broking permission and the broking activity being compatible with one of the credit union statutory objects)	4.3
Raising consumer awareness	Front line service providers, e.g. RSLs, local authorities, relevant charities, consumer bodies	To consider making available to service users simple information with contact details of key organisations at national and local level (online and in paper format, as appropriate)	4.14
	Front line service providers e.g. RSLs, local authorities, relevant charities, consumer bodies	To consider how they can effectively signpost consumers to MAS' website (which will become MAPS' website), both on their own websites and through other channels	6.15
	Consumer credit lenders (with any necessary credit broking permission)	To consider signposting consumers to credit unions if this seems appropriate to the needs of the individual consumer. We suggest that industry trade bodies consider how they could facilitate this.	6.21

Topic	Addressees	Recommendation	Paragraph
Credit broking	RSLs	To consider whether any of the activities they carry out or wish to start carrying out may be credit broking and, if so, contact us at RSL@fca.org.uk to discuss whether they may require credit broking permissions	5.24
	National Housing Federation	To consider updating the 2017 Guidance for Housing Associations on Consumer Credit Authorisations in light of FG18/6 and the recent amendment to the RAO	5.24
RSLs and essential household goods	Housing representative bodies	To consider how they can best promote the exchange of information between RSLs on experiences with helping tenants to access to household goods	6.30
	National Housing Federation / Furniture Re-use Network	To consider reviewing and updating their 2007 guide to partnership working	6.30
	Housing representative bodies	To consider (individually or collectively) whether to develop guidelines or recommendations for RSLs to encourage them to provide information to tenants about sources of low-cost household goods	6.30

Annex 2
The market for alternatives to high-cost credit

1. In this Annex, we provide supporting data on the market for alternatives to high-cost credit, covering the same broad topics as in Chapters 2 and 3 of the main paper.

2. We explore the consumer need for high-cost credit and essential household goods, including key drivers of the demand. We also provide more information and data on credit unions and community development finance institutions.

3. We also include examples which bring to life the types of alternatives we describe. In using these examples, we are neither promoting nor endorsing the products, services or organisations offering them. The information contained in the examples has been taken from the websites of the organisations concerned, and is correct as of 18 July 2019.

Demand for high-cost credit

Consumer needs and drivers

4. Three million consumers use high-cost credit in the UK (excluding overdrafts). Many have low credit scores, low incomes and cannot access mainstream forms of credit. Our 2017 Financial Lives Survey showed that people displaying characteristics of potential vulnerability are twice as likely to use high-cost credit as other UK adults.

5. Income shortfalls, unexpected expenses and/or limited access to mainstream credit can lead to the use of high-cost credit products. Some consumers do not even apply for a mainstream loan because they think they won't be approved.

6. The need for credit is often immediate, and consumers don't have time to apply for a mainstream loan, risk getting declined, then start the process again with another lender. Consumers may not have time to shop around, and so may borrow from a lender they have used before. Repayments for high-cost credit are often weekly which suits many low-income consumers. The longer-term costs can be a secondary consideration. These factors underpin demand across different high-cost credit products.

7. Our 2017 Financial Lives Survey revealed that many users of high-cost credit lack savings and have low financial capability. 6.5 million (13%) of UK adults have no cash savings. At the time of applying for their last high-cost short-term credit payday loan 76% of accepted consumers had no money in accessible savings. Those with savings have an average of £177. Nearly 60% of rent-to-own (RTO) consumers have no savings.

8. People more likely to use high-cost credit are:

- between 25 to 34 and 35 to 44

- have financially dependent children or are single parents
- unemployed (often aged 18 to 34)
- renting their home
- people with a physical or mental health condition or illness that affects their day-to-day activities
- people with no savings or investments

High-cost credit meets a range of needs

9. There is a spectrum of credit products across consumer credit aimed at different consumer circumstances and needs. The cost of these products varies significantly. People often take out HCSTC loans to pay for living expenses and bills. Home-collected credit users may use it to top up income but also to cover expected events like festive periods and school uniforms. Rent-to-own customers primarily use it to replace a broken product. Common reasons for a shortfall in income or need for extra money which and drive a need for credit include the loss of a wage earner in the family, funeral costs, relationship breakdown, substance abuse, addiction and illness. Credit is also used to buy mobile phones, birthday presents and for school trips.

10. Consumers using RTO are often from low income households with high financial pressure. This includes unemployed people and single parent households with low incomes. Some consumers are one-off or irregular users of high-cost credit, but many rely on high cost credit to manage their finances and don't believe they will ever get out of debt. RTO users often think that RTO fulfils an immediate need, especially in emergency situations where consumers think they have limited options and accept the long-term consequences.

11. Some consumers report positive experiences of using RTO and are happy to keep using these services. For many, a RTO retailer is accepted as their only means of accessing goods. This was driven by ease of access, acceptance and the perceived affordability of weekly repayments.

Data and trends

12. There is significant demand for credit from financially vulnerable consumers. Our data shows that product use varies according to income and credit score, with those on lowest incomes holding more products. Repeat borrowing and long-term debt is common among these consumers.

13. Aside from credit cards, unsecured personal loans, overdrafts and motor finance, the largest consumer credit markets by number of consumers are catalogue credit and retail finance, with around 2 million consumers taking out these types of credit in 2016. In the same year, around 800,000 people took out HCSTC and 700,000 took out home-collected credit. Rent-to-own, guarantor lending and logbook lending had many fewer consumers take out these products in 2016, ranging from less than 100,000 to 200,000.

14. Looking at a range of products outside the mainstream, we see different characteristics of users of different products. The median catalogue credit customer has a median credit score of 63 and holds debt on 1 other product but the median RTO customer has a median credit score of 35 and holds debt on 8 other products.

15. Home-collected credit and rent-to-own consumers have the lowest median annual net incomes, around £16,100 and £15,500. RTO is a small market with around 400,000 consumers having outstanding debt in RTO products in 2016. Many of these consumers are vulnerable, often in difficult circumstances and are becoming increasingly indebted. Their median amount of outstanding debt more than doubled from £2,000 in November 2014 to £4,300 in November 2016. Fewer than 40% of RTO consumers' households have income from employment, whereas more than half receive some form of state benefit.

16. Compared with consumers of other high-cost credit products, RTO consumers are less likely to have a mortgage and credit card borrowing. However, they are more likely to hold other household bill debts and other high cost products than any other category of high-cost credit user. The picture is similar for home-collected credit users.

17. Our data indicate that the number of consumers taking out home-collected credit fell from 900,000 in 2012 to 600,000 in 2017. The total value of originations started at £1.4 billion in 2012, falling to £1.1 billion in 2014 and 2015. It rose to £1.3 billion in 2016, but fell back again to £1.1 billion in 2017. Fewer consumers are using home-collected credit, but they are borrowing more.

18. Credit Reference Agency (CRA) data analysis of home-collected credit users from 2015 to 2017 shows that most consumers (74%) spend up to 12 months in continuous debt, and that 5% were in debt for the whole of the 2-year sample period. Most (75%) had more than 1 loan and 10% had 12 or more loans. Around 50% of consumers had 2 accounts or more in debt at the same time.

19. Our data show that many home-collected consumers miss repayments with around 30% missing a whole month's payments. There are no charges for missed repayments, but home-collected credit can still be an expensive form of borrowing.

20. Over 5.4 million HCSTC loans (including payday loans and short-term instalment loans) were made in the year to 30 June 2018. Lending volumes having risen since 2016, but are still below 2013 levels:

- 37% of payday loan borrowers and 29% of short-term instalment borrowers are aged 25 to 34
- 37% of HCSTC borrowers are tenants (including council tenants)
- 26% live with parents
- 67% of payday loan borrowers and 49% of short-term instalment borrowers are over-indebted compared with 15% of UK adults

21. We found that between 2015 and 2017 the credit scores of people who used high-cost credit products worsened significantly, confirming that users of high-cost credit can often be financially vulnerable. This reflects several factors, including rising living costs or life events either at the time or after consumers applied for the loans.

Wider factors

22. Demand for high-cost credit can be affected by many political, social and economic factors. It is important to view the demand in the context of this complex and evolving environment. For example, our engagement with debt charities and other stakeholders indicates that some consumers are experiencing challenges around how to manage Universal Credit (UC).

23. We are also interested in income levels and employment trends because of the impact on consumers and how they interact with the financial services sectors we regulate.

24. Government statistics show that unemployment is at the lowest levels since 1974 with 3.8% of the working age population not in employment. At the same time, a growing segment of the UK population is employed in the 'gig economy' or on zero-hours contracts. In the year to July/August 2017, a survey carried out for the Department for Business, Energy and Industrial Strategy found that roughly 2.8 million people had worked in the gig economy within the previous 12 months. In a 2-week period in November 2017, there were around 1.8 million zero-hours contracts under which work had been carried out. Around half of these were contracts with people for whom it was their main job.

25. People employed in the gig economy are usually considered to be self-employed and are often not entitled to paid holiday, sick pay or parental leave. Zero-hours contracts offer an hourly rate of pay under an employment contract but the worker is not guaranteed a minimum number of hours of work. Under both types of arrangement, there is often no guaranteed income. This can make budgeting and financial planning difficult. There may be periods with few or no jobs/hours available.

26. These fluctuations in income may leave those employed in the gig economy or on zero-hours contracts vulnerable to income shortfalls. Some are also in receipt of benefits, which fluctuate in line with their recent earnings. At the same time, consumers with unpredictable incomes often find it more difficult to access mainstream loans.

27. For these reasons, those working in the gig economy and on zero-hours contracts may have unpredictable personal finances. They may be more likely to turn to high-cost credit than many others.

Demand for essential household goods

28. As we set out in CP18/35, for some consumers the need for credit is driven by the need for essential household goods, such as a fridge, washing machine or a bed.

29. In 2016, the End Furniture Poverty campaign run by the Furniture Resource Group conducted a survey of housing associations, local authorities, charities and other relevant stakeholders. It asked about the main barriers for consumers to accessing essential household goods. The most frequent response was 'low income'. Because many consumers cannot afford the items they need and often do not have any or only insufficient savings, they often turn to high-cost credit providers, such as RTO firms.

30. It is difficult to define which household goods are 'essential' because what is 'essential' to 1 person may not be to another. The 2016 End Furniture Poverty survey mentioned above was carried out with a view to compiling a list of essential household items. Based on a list of 19 items, the ones considered most essential were a mattress, fridge and cooker or hob. The household item considered least essential was a television. However, End Furniture Poverty chose to include a television on its final list of essential items as they considered it necessary to ensure 'a normal standard of living and ability to meet social norms and participate in society'.

Social housing

31. In 2016/17, about 43% of individuals in the lowest income decile in the UK were social tenants. The average gross annual income of households in social housing was just over £23,000. Around 40% were in employment.

32. Most social housing properties are let unfurnished, usually with no furniture, white goods or curtains. In many cases, there are also no floor coverings, such as carpets. End Furniture Poverty estimates that only around 2% of social housing is offered furnished. Against this background, new social housing tenants may struggle to furnish and decorate their new homes. Some take out credit, which is often high-cost credit like RTO, in order to have essential household goods, carpets and curtains.

33. Other tenants may find themselves living without essential goods for some time. There may also be increased costs associated with this, sometimes called a 'poverty premium', for example a consumer without a washing machine will usually pay more per load when using a launderette.

34. Some organisations, for instance the Joseph Rowntree Foundation and End Furniture Poverty, campaign for more furnished tenancies. In surveys carried out by the Human City Institute between 2010 and 2014, social tenants were asked how their social landlords could best help them tackle their financial problems. A total of 47% said that they want social landlords to provide more furnished tenancies. A further 36% said they would like help with sourcing furniture and white goods.

Private rental sector

35. Many consumers on low incomes living in the private rental sector also find it difficult to furnish their accommodation though most rental properties are let with floor coverings and basic white goods. There are many more fully furnished private homes for rent than in the social housing sector, but these are more expensive than unfurnished homes and can be unaffordable for many consumers on low incomes.

36. Notice periods for private accommodation tend to be longer than in the social housing sector and it is not uncommon for up to 3 months' rent to be required before moving in.

Need for replacements

37. People often turn to high-cost credit when a single essential item breaks down. Consumers with little or no savings and limited disposable income are particularly vulnerable as furniture items and white goods usually cost hundreds of pounds to replace.

Our consumer research found that the most common reason for RTO purchases was an item breaking down. This accounted for 74% of white goods purchased on RTO. This, and the essential nature of white goods, makes them items which consumers will usually try to replace as quickly as possible, potentially using high-cost credit.

Availability of lower cost credit

Credit unions

Business model

38. Credit unions are financial co-operatives owned by and run for the benefit of their members, who are their customers. They provide important services to a range of consumers. Credit unions hold deposits and make loans (secured or unsecured). Some offer mortgages.

39. Credit union members are individuals, with small but increasing numbers of corporate members. Members must fall within one of the common bonds of credit unions. In the UK, most common bonds are based on locality, employment or occupation.

40. In Great Britain, credit unions are registered under the Co-operative and Community Benefit Societies Act 2014 as a credit union under the Credit Unions Act 1979 ('society legislation'). In Northern Ireland, The Credit Unions (Northern Ireland) Order 1985 is the principal legislation.

41. Credit union legislation sets out what credit unions can do, and limits their activity to the fulfilment of the following objects:

- the promotion of thrift among the members of the society by the accumulation of their savings
- the creation of sources of credit for the benefit of the members of the society at a fair and reasonable rate of interest
- the use and control of the members' savings for their mutual benefit
- the training and education of the members in the wise use of money and in the management of their financial affairs

42. Credit unions are exempt from the requirements of some EU Directives that apply to other deposit takers, such as on capital requirements, but are subject to other regulatory requirements. Some of these regulatory requirements include capital adequacy rules.

43. Many credit unions do not pay interest on savings, but instead may pay a dividend at the end of the year depending the levels of surplus generated that year.

44. The amount of interest credit unions can charge on loans is capped by the credit union legislation. In Northern Ireland, credit unions can charge up to 1% interest per month (around 12.68% APR). In Great Britain, they can charge up to 3% interest per month (around 42.6% APR). This generally makes credit union loans cheaper than high-cost credit.

45. While many credit unions require borrowers to have a history of saving with that credit union before considering any request for a loan, others do not.

Credit union sector

46. **Size of sector:** There are over 400 credit unions taking deposits from and making loans to over 1.8 million members across the UK.

47. Key statistics on the credit union sector as at Q4 of 2018 include:

- there are approximately 1.2 million adult members of credit unions in Great Britain; the figure in Northern Ireland is over half a million
- they have assets of approximately £3.3 billion with around 51% of these assets being held by the 146 credit unions in Northern Ireland
- around £1.5 billion is being lent to their members

48. Presenting average figures for the credit union sector does not give an accurate reflection of the individual credit unions. The sector is polarised between a small number of large credit unions, and many smaller credit unions. For instance:

- nearly three-quarters of credit unions have fewer than 5000 members, and the 11 largest credit unions (by membership size) account for around 20% of credit union members
- 8 credit unions account for around 25% of the total assets held by the credit union sector and two-thirds of credit unions have assets of less than £5 million each
- on personal loans, the top 2 credit unions (on amounts lent) account for around 15% of the total amount lent out, and around half of the credit unions have a loan book of less than £1 million

49. This polarisation partly reflects the competing approaches within the credit union sector. Some credit unions choose to operate among a small membership base where members are more closely connected to each other. Others take the view that growth is vital to secure the long-term success of the credit union, and so serve increasingly large numbers of members.

50. These different approaches help to explain why there are now 9 organisations representing the credit union sector, 7 of which are in Great Britain.

51. There are examples of credit unions seeking to provide an alternative to high-cost credit. The digital offering by some credit unions is strong, with credit unions having developed their own mobile applications. Others have developed platforms to offer 'payday loans' as a cheaper alternative source of credit.

52. Working with their local credit union, some local authorities have funded the creation of junior savings accounts for all primary school age children in that area. This helps to create a savings habit from an early age, and goes a long way to raising awareness of the credit union.

53. Some credit unions have formed close links with local employers in both the public and private sector. Some credit unions have amended their common bond to accept staff from particular employers. Where the partnerships are strong, employers play their part in supporting credit unions by facilitating payroll deduction, and raising awareness through internal communication channels.

54. There are also examples of credit unions in Northern Ireland and in Great Britain trialling lending to higher-risk consumers, supported by grants from charitable foundations and others.

55. **Improving consumer awareness** is a key aspect of promoting access to alternatives to high-cost credit.

56. In 2018 the Scottish Government launched its 'People, Not Profit' campaign. This was a high-profile awareness-raising campaign delivered across Scotland in response to findings that 20% of the population in Scotland had not heard of a credit union. It has been credited with an increase in credit union membership and loans.

57. In Wales, credit unions have worked together creating their #credit2wales campaign to raise public awareness of credit unions throughout Wales. They have also been promoting payroll savings schemes. Credit unions have also been working with the Wales Illegal Money Lending Unit to warn against the dangers of borrowing from illegal money lenders, and raise awareness of credit unions.

58. Across Great Britain, the Government is working with 15 credit unions to pilot a 'prize-linked savings scheme'. Under the scheme, individuals who save with the credit union will be entered into a draw to win cash prizes. The scheme aims to improve people's financial resilience and raise awareness of credit unions.

Community development finance institutions

59. There are currently around 50 CDFIs in the UK of which 9 offer personal loans to consumers.

60. Key statistics around CDFIs' personal lending activities in financial year 2017/18 include:

- Approx. £26 million was lent to individuals in 45,903 loans
- Size, term and interest rates of loans:
  - Average loan size – £569
  - Average term of loan – 10 months
  - Average interest rate – 129.45%
- Information about borrowers:
  - 50% were unemployed
  - 53% lived in social housing
  - 66% were in receipt of benefits
  - 78% were in the UK's 35% most disadvantaged areas
  - 48% were on household incomes of less than £15,000 a year
- Around two-thirds of borrowers had previously borrowed from a high-cost lender

61. These figures show that CDFI lending accounts for just a fraction of consumer borrowing in the UK. In 2016, the value of loan originations (i.e. new loans) was around £600 million for RTO, £1.1 billion for payday loans and £1.3 billion for home-collected credit. This compares with just £22 million of CDFI personal loans in the financial year 2016/17.

62. An average loan size of £569 over 10 months suggests that CDFIs are providing an alternative option for some consumers who need small sums of credit.

63. The information about the employment, housing and income situation of CDFI customers in part reflects the target group of low-income consumers with poor credit scores. However, it is worth noting that over a third (34%) of customers were not benefits recipients and just under half (47%) did not live in social housing. This suggests that a significant proportion of CDFI customers are not from the groups with the lowest income or which are most susceptible to financial exclusion.

Availability of alternatives to credit

Second-hand household goods

64. A potential option for consumers in need of essential household goods is to buy them second hand. These can be obtained through reuse centres, charity shops, online or through local exchange trading schemes (bartering services).

65. **Reuse centres:** Located throughout the UK, many of these shops and warehouses sell white goods, household appliances and other electrical items. Reflecting their charitable aims, reuse schemes keep their prices as low as they can to make the goods affordable to as many consumers as possible. Some offer a blend of new and recycled goods.

66. The Re-use Network brings together over 150 reuse centres located across the UK and their website features a search tool which enables consumers to find reuse shops in their local area. The network estimates that in 2017/18 the reuse sector reused 3.5 million items of furniture and electrical appliances helping 1.55 million households. Many reuse centres operate a referral system which usually involves a form being completed by the referring body, for example a local authority or RSL.

67. Refurnish Devon runs a furniture and appliance reuse project. The white goods and electrical appliances on offer have typically been repaired, tested and are supplied with a warranty. Homestore by Quaker Social Action sells donated and new furniture and household good to members.

68. **Online and mobile trading:** Technology is increasingly used to bring together those with unwanted goods and people who want them. Many websites, platforms and mobile apps exist for this purpose, some of which operate via social media channels.

69. **Local Exchange Trading Schemes (LETS):** These are local bartering systems which create a market for consumers to trade goods and services without money changing hands. A direct exchange between 2 people is not needed as a mutual credit system is used, each member has an account to which (virtual) credits are made for goods/services provided, and (virtual) debits taken for goods/services received.

Sources of second-hand household goods

70. There are 4 main sources of second-hand household goods:

- **Donations from the public:** The most significant source in terms of volume is the public.
- **Local authorities:** Local councils run civic amenity sites and household waste recycling centres for unwanted white goods and furniture items. Most councils will also collect unwanted goods for a fee and some have arrangements with reuse centres to pass goods to them so they can be reconditioned or repaired.
- **Large retailers:** Some high street retailers and/or manufacturers of white goods and furniture make unwanted stock available to reuse centres and charities. Other

large retailers operate schemes where they encourage their customers to donate their old goods and furniture to those in need.
- **Social inclusion programmes:** Some reuse centres are part of wider social enterprises that provide employment and/or training opportunities to people at risk of social exclusion.

Barriers to the provision of second-hand goods

71. Stakeholders have told us some barriers to the provision of second-hand goods:

- **Health and safety legislation:** Items such as sofas and other soft furnishings may only be sold to consumers if they have the required permanent fire safety labels. Goods which are missing labels cannot be accepted by reuse centres and charities. Similarly, electrical appliances must comply with relevant safety standards which requires distributors to check and test the goods before selling them. Some reuse centres and charities are unable to accept donations of electrical goods.
- **Quality and durability:** The lifetime of second-hand goods is often unknown, as their age and history tend to be unknown. Retailers of second-hand white goods are usually only willing to offer a short warranty.
- **Transport and storage:** Because many household goods are large, it is challenging to move them around. Similarly, any distributor that is not also the source of the goods needs to have substantial storage space available to store the goods.

Consumer hire

72. A consumer who can't get a grant and can't afford to purchase second-hand goods may be able to afford small weekly or monthly payments to hire basic household goods. Hire differs from hire-purchase and conditional sale (including RTO) in that the hirer does not become the owner of the goods.

73. Hire can also be an important and practical option for consumers who anticipate a change in their circumstances, for example, because they are saving for a particular item or expecting a change in living arrangements.

74. Equally, hire is not a suitable option for everyone. A consumer who hires goods over a period of many years could find that they have paid more in total than if they had taken out a credit agreement to buy the goods.

75. Most businesses offering goods on hire are operated on a commercial basis. But there are providers who rent goods with the aim of meeting the needs of low-income consumers.

76. The examples below show hire which aims to meet the needs of low income consumers.

Newcastle Furniture Service (NFS)
The NFS provides essential items of furniture to over 10,000 households in the UK. The service is available to tenants of social housing providers who have signed up with the Newcastle Furniture Scheme. The range of products includes white goods, furniture, bedding, soft furnishings and gardening equipment with a weekly cost which is added to a tenant's rent.

AO.com
AO.com is an online retailer offering household appliances and electrical goods for sale. In January 2019, AO.com launched a consumer hire pilot scheme partnered with several housing associations to offer their tenants washing machines for hire.

Annex 3
Discretionary welfare assistance schemes in Scotland, Wales and Northern Ireland

Table 1: Discretionary welfare assistance schemes in Scotland, Wales and Northern Ireland

	Name of scheme	Purpose	Expenses covered	Key eligibility criteria	Type of award
Scotland **Scottish Welfare Fund**	**Crisis Grants**	Are provided in a crisis due to a disaster (e.g. flood, fire) or emergency (e.g. lost money, unexpected expense)	Food, essential heating expenses and other living expenses	Low income (not necessarily on benefits)	Cash or cash equivalent
	Community Care Grants	Are provided where a qualifying individual needs help to establish or maintain a settled home in the community. May also be provided to support individuals and families facing exceptional pressure.	White goods and essential household items (e.g. bed, bedding, seating)	Low income (not necessarily on benefits) Savings over £700 if below pension age and £1200 if above pension age may have bearing on grant award	Goods, but also cash equivalent in exceptional circumstances
Wales **Discretionary Assistance Fund**	**Emergency Assistance Payment**	Providing a safety net in a crisis due to a disaster or emergency	Food, gas, electricity, clothing, emergency travel	Must have no access to other money and have tried all other affordable sources of funding	Cash paid into bank account and/or vouchers
	Individual Assistance Payment	Helping vulnerable people live an independent and settled life in the community	White goods and essential household items	Must be on income-related benefits, and have no access to savings or other funding	Goods
Northern Ireland **Finance Support Service**	**Discretionary Support**	Providing financial support following extreme, exceptional or crisis situations causing significant risk to health, safety or wellbeing	Flexible but is intended as quick, short-term support	Household annual income must not be above the national living wage (whether from benefits or work); be able to repay loan within period agreed	Interest-free loan or grant paid into bank account

Annex 4
Abbreviations used in this document

APR	Annual Percentage Rate
CDFI	Community development finance institution
CFO	Community finance organisation
CRA	Credit reference agency
GB	Great Britain
LETS	Local Exchange Trading Scheme
LBG	Lloyds Banking Group
MAPS	Money and Pensions Service
MAS	Money Advice Service
NI	Northern Ireland
PERG	Perimeter Guidance manual
RAO	Financial Services and Markets Act 2000 (Regulated Activities) Order 2001
RSL	Registered social landlord
RTO	Rent-to-own
SI	Statutory instrument
UC	Universal Credit

We have developed the policy in this Consultation Paper in the context of the existing UK and EU regulatory framework. The Government has made clear that it will continue to implement and apply EU law until the UK has left the EU. We will keep the proposals under review to assess whether any amendments may be required in the event of changes in the UK regulatory framework in the future.

We make all responses to formal consultation available for public inspection unless the respondent requests otherwise. We will not regard a standard confidentiality statement in an email message as a request for non-disclosure.

Despite this, we may be asked to disclose a confidential response under the Freedom of Information Act 2000. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by the Information Commissioner and the Information Rights Tribunal.

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FINANCIAL
CONDUCT
AUTHORITY

12 Endeavour Square London E20 1JN
Telephone: +44 (0)20 7066 1000
Website: www.fca.org.uk