fair4all finance

Deduction lending

Does it add up for low income borrowers?

March 2023

The Financial Inclusion Centre

Promoting fair, inclusive financial services

SWOBODA RESEARCH CENTRE

Contents

Executive summary

Affordable credit provides a lifeline for millions of people

One of the things we're focused on at Fair4All Finance is increasing the availability of affordable credit for people in financially vulnerable circumstances.

Community finance providers play a key role in this and have fantastic expertise in serving customers sustainably and ethically.

We want to see the sector thrive and grow. And to show others how it's possible to serve people in vulnerable circumstances well in a sustainable way.

Testing the deduction lending model

For many years, credit unions have had payroll partnerships with employers, where loan repayments are automatically deducted from the borrower's income at source.

More recently, some have applied this same deduction model to non means tested Child Benefit, often known as Family Loans.

While we'd heard many positive stories from borrowers about their experiences of deduction lending like this, there was little in the way of formal research testing the model and its impact on borrowers and lenders.

So we commissioned research to find out:

- How well deduction lending works for borrowers on low incomes, lenders and employers
- Where there might be opportunities to improve and grow the offer
- How the model can impact savings behaviour

What we found was overwhelmingly positive

We surveyed over 7,500 people across seven credit unions, and found that deduction lending is good for borrowers and good for lenders:

Good for borrowers

- **97%** of benefit loan users were very satisfied or satisfied with their loan
- Borrowers were **more confident in managing their money** and reported **positive impacts** on their wellbeing and mental health
- **Automated repayments** are the key reason for choosing this type of loan
- **Seven out of ten** borrowers agree this type of lending also helped them **save more regularly**

Good for lenders

- Deduction lending via credit unions is **universally seen as affordable**
- **Fewer** loan applications are rejected
- Automatic repayments **lower arrears and default levels**
- **Overwhelming customer satisfaction** and positive benefits

'I think it's fantastic. It's definitely a thumbs up from me. It's just it's manageable, obviously because you're not missing that money.'
Payroll loan borrower,
Enterprise Credit Union

Overall, the lack of friction in the model helps borrowers budget and it encourages positive money management and savings behaviours.

It works for lenders as the automatic repayments lead to lower default levels. And it works for employers, improving the satisfaction and wellbeing of their workforce.

And importantly, there was no difference in borrowers experiencing financial difficulties compared to the more standard lending model.

This research shows deduction lending can be a credible and effective way of increasing access to affordable credit for lower income households. It offers a scalable solution that can help many more households smooth incomes, meet unexpected costs and start to build their financial resilience.

Based on this research and the work of the seven participating credit unions, we've set out good practice which we hope will support more credit unions to expand the model to more customers in a positive way.

A big thank you

We would like to thank the Financial Inclusion Centre and the Swoboda Research Centre for leading this project and all the credit unions and their members who took part in the research and gave us such a rich data set and compelling human stories about the impact deduction lending has had on their lives.

You can access the full research report findings with customer case studies here

Introduction

We commissioned this project to **research the effectiveness of deduction lending**, where loans are repaid at income source either through salaries (payroll lending) or through non means tested Child Benefit (benefit lending).

For many years, credit unions have had payroll partnerships with employers, where loan repayments are automatically deducted from the borrower's income at source.

More recently, some have applied this same deduction model to non means tested Child Benefit, often known as Family Loans.

Anecdotally, community finance organisations we work with report that customers like the simplicity and convenience of the model and find that automatic repayments make the loans more manageable.

And from the lender perspective, this means that the model seems to lead to better loan performance and lower default rates.

While we had heard many positive experiences from borrowers, there was little in the way of formal research. So we wanted to test that the lending models used were **delivering the best outcomes for customers**.

We wanted to better understand **how the automatic repayment mechanism works for borrowers on low incomes**, considering any benefits or potential risks in the model.

We also wanted to test how payroll lending impacts **people's relationship with their employer** and if it influences how tied people felt to a job while they finished repaying their loan.

Savings contributions are often deducted alongside loan repayments in this lending model, and we wanted to understand **how this impacts savings behaviours.**

Finally, we wanted to delve deeper into how these loans worked for lenders, in terms of **performance and potential for scale**.

Specifically, the project looked at low value lending (less than £1,500). People borrowing at this level tend to have lower incomes and be less well served by the credit market.

To ensure robust conclusions, the research team adopted a broad evaluation framework that combined quantitative and qualitative approaches:

- **Literature review** of existing research
- **Qualitative stakeholder interviews** with 26 key stakeholders – including lenders, debt advisors, employers, and consumer experts - to discuss benefits and risks
- **Quantitative borrower survey** of 7,559 borrowers from seven credit unions
- **Qualitative borrower interviews** with 20 borrowers to gauge in more depth the reasons behind positive or negative views
- **Quantitative lending data analysis** of credit union data across payroll, benefit and standard loans

Key findings

Key findings from the borrower experience

Benefit loan borrowers particularly financially vulnerable demographic

Based on our survey of over 7,500 borrowers, users of both payroll lending and standard lending are broadly demographically similar. Yet, the profile of borrowers using benefit lending is distinct. They tend to be almost exclusively younger mothers that are much more likely to be single and supporting a higher number of children, living in rented housing with noticeably lower incomes and less likely to be in work.

Demographic profile	Benefit Loans	Payroll Loans	Standard Loan
Female	97%	66%	68%
Age 18-34	52%	22%	22%
Renters	90%	54%	67%
Annual income <£15K	51%	21%	31%
Working (PT/FT)	42%	94%	64%
Single	70%	35%	45%
Two or more children	65%	22%	25%

Family Loan example

A single mum of two primary school children takes **a £400 loan** for extra costs over summer and to help buy a new secondary school uniform. The loan is repaid over 39 weeks at 42.6% APR.

Her **£36.25 weekly Child Benefit** is paid directly into her credit union account. £11.74 of this is used to repay the loan and £2.50 is put into a savings account. The remaining £22.01 is available for withdrawal.

The **total interest paid is £57.80** (42.6% APR) **compared to £339.44 interest** (498.78% APR) with a leading doorstep lender. She would also have accumulated **£97.50 in savings** by the end of the loan.

Limited access to other forms of credit for those using benefit lending

'**I was paying double if not more, what I was lending**. Absolutely ridiculous on a doorstep lender... So, then **every month I was robbing Peter to pay Paul**... And they just don't care. **They didn't care at all and one of them type of people that just hound you**'
Case study 6, Family Loan borrower at Manchester Credit Union on previous borrowing experience

Benefit loan users seem to have fewer traditional borrowing options available to them, with much lower usage of authorised overdrafts (4%), loans from banks/building societies (1%) and credit card/store card (8%) compared to both payroll loan and standard loan borrowers.

And compared to these two types of borrowers, more of those using benefits loans have taken a Universal Credit advance (19%) and have higher usage of friends and family borrowing (15%), loans from the Department of Work and Pensions (13%) and home collected credit (4%).

Benefit loans spent on family expenditure

	Benefit Loans	Payroll Loans	Standard Loans
1	Birthday/Christmas (29%)	Birthday/Christmas (23%)	Birthday/Christmas (23%)
2	Household item/change (21%)	Holidays (18%)	Household item/change (21%)
3	Clothing/school uniform (18%)	Household item/change (15%) Car repairs (15%)	Holidays (17%)

Some stakeholders who were interviewed raised concerns about using Child Benefit as the repayment method, questioning whether it could divert essential funds away from the household that should be used solely for spending on their children.

Yet, the results show that the most popular use of benefit loans were for expenditure relating to their families. In comparison, payroll loan borrowers were most likely to use their loan for more discretionary spending.

Overwhelming satisfaction and benefits from deduction lending

These forms of lending appear to be having a positive effect on the vast majority of borrowers.

Over
95%
satisfaction

97% of benefit loan borrowers felt that their loan had helped them a lot. This impressive figure was notably higher than among users of both payroll loans (87%) and standard loans (86%).

Similarly, satisfaction levels were extremely high across all three types of lending with 97% of benefit loan users, 95% of payroll loan users and 95% of standard loan users saying that they were very satisfied or satisfied with their loan.

Automated repayments are the key reasons for choosing deduction lending

Overall, it is the basic feature of the loan with the credit union – the convenience of automatic payments – and affordability of the loan repayments which are the main attractions to deduction lending among those that use it.

'I don't have to remember to make the payments it **just gets done automatically**'
Case study 2, Family Loan borrower at Leeds Credit Union

Having funds automatically transferred directly to the credit union is seen as a positive rather than a negative feature and was the most popular reason given for choosing a payroll loan (25%) and benefit loan (18%).

Positive experience of the application process

Both payroll and benefit loan borrowers reported very favourable experiences with the application process, with 96% and 97% respectively strongly agreeing or agreeing that the application process to obtain the loan was straightforward and easy to follow.

Just under 2% disagreed in relation to both loans.

Almost all respondents for both loans strongly agreed or agreed that they felt that the credit union sufficiently assessed their ability to afford the loan (95% for payroll loan users and 98% for benefit loan users).

Yet, more than half of payroll borrowers (54%) and half of benefit loan borrowers (57%) said they did not know if the credit union had carried out a credit check as part of the application process.

Lending via credit unions is universally seen as affordable

The results suggest very clearly that both payroll and benefit loan borrowers found their loans affordable, with 97% of borrowers across all three types of lending either strongly agreeing or agreeing that their loan was affordable.

The results were uniformly positive across all the participating credit unions.

No difference in borrowers experiencing financial difficulties

'I think it's fantastic. It's definitely a thumbs up from me. It's just it's manageable, obviously because you're not missing that money. **It's easier because you never miss a payment because it's just coming out your wages**'
Case study 4, Payroll Loan borrower at Enterprise Credit Union

We wanted to test if there was a risk that the automatic repayment and good loan performance could be 'masking' customers in financial difficulty.

Only 7% of payroll loan borrowers and 9% of benefit loan borrowers either strongly agreed or agreed that they had struggled to keep up with household finances since part of their wage or their Child Benefit had been transferred directly to the credit union to cover their loan repayments.

Notably, the result from those using both forms of deduction lending were broadly in line with those reported by users of standard loans.

There appears to be no difference between the proportion of payroll loan borrowers (10%) and benefit loan borrowers (11%) that had made a loan repayment that they would have preferably missed, compared to those using a standard loan (11%).

However, this is still not an insignificant proportion, and therefore would appear that around one in ten borrowers are experiencing some degree of financial pressure during the lifetime of their loan.

At just 2%, there was no difference between the proportion of payroll loan borrowers and benefit loan borrowers saying that they had actually missed a loan payment.

However, this was markedly lower compared to 15% of borrowers that stated they had missed a payment with a standard loan.

This would indicate that those repaying via deduction repayments are less likely to miss at least one payment compared to those using repayment methods such as standing order, direct debit and payments made at branch.

Given that there were no real differences between the three types of loan users, there is a question about the cause of this marked difference.

Some credit unions point out that some of this is often due to the very first payment being missed when a new borrower does not set up their bank payment, which is far less likely to happen with deduction lending.

Yet, the survey results also indicate that there is a much lower appreciation, particularly among payroll loan users on how they would go about cancelling their loan payments.

More than two thirds of payroll loan borrowers (69%) and more than half (53%) of benefit loan borrowers were not aware they could stop their payments by contacting their employer or benefit provider, dependent on their loan type.

This is higher than those with standard loans who were not aware they could stop their payments by contacting their bank (28%).

These findings point to our recommendations in the good practice guide around ensuring that members feel able to reach out for support from their credit union, as well as doing more to share account information with Family Loan borrowers.

Few concerns about transferring Child Benefit to the credit union

One issue raised in stakeholder interviews about expanding access to benefit loans was that people would be concerned about transferring their Child Benefit to the credit union and losing control over their money.

The survey responses don't support those concerns. A large majority of respondents (91%) were very comfortable or comfortable about transferring their Child Benefit to their credit union. Just 1% said they were uncomfortable.

The results suggest that the downsides of benefit loans are not an issue for most respondents.

Positive impact on savings behaviour among deduction lending users

Prior to borrowing with the credit union, overall levels of saving appear low across all loan users but especially among benefit loan users.

'I didn't actually have much in the way of savings. **But I have now.**'
Case study 1, Payroll Loan borrower at Clockwise Credit Union

Almost three quarters (72%) said they rarely or never saved, compared to 54% of payroll loan users and 56% among standard loan users.

These results are perhaps not surprising given the significantly lower incomes of those using benefit loans compared to the other loan types.

However, despite the relatively low saving levels prior to taking their loan consultation, it appears that the automated mechanism of deduction lending is fostering higher levels of regular saving.

73%
of deduction loan borrowers **saved** more regularly

73% of those repaying by Child Benefit and 72% by payroll deduction agree that the loan had helped them save more regularly. This compares to 66% among standard loan users.

Relationship with employer not negatively impacted by payroll lending

Given that the employer becomes part of the lending relationship with the customer, we explored the potential impacts on the employer/ employee relationship resulting from the loan. The survey responses were overall positive, showing a limited negative impact.

We wanted to know if payroll borrowers were concerned that their employer would know too much about their finances. We found only 14% (or one in seven) strongly agreed or agreed with this. 45% were neutral on the question, while 41% strongly disagreed or disagreed.

Having a payroll loan should not be a barrier to changing employers. Normal practice when a borrower leaves a job is to arrange a standard repayment plan, for example through direct debit. And most borrowers did not see a payroll loan as a barrier to their ability to change jobs.

Nearly 40% (39%) were neutral and 43% strongly disagreed or disagreed that since taking out their loan they felt unable to change employers until it is repaid. However, a significant minority did have concerns, with 18% strongly agreeing or agreeing.

Overall, the findings suggest that there are no widespread concerns for most borrowers relating to the potential negative impact on the relationship with their employer. However, a minority still expressed some perceived issue, which should provide the impetus for credit unions to improve communications to reassure about privacy and explain more about what happens should a borrower leave their current employer.

Deduction lending has positive financial and wellbeing impacts

70% of payroll loan borrowers and 72% of benefit loan borrowers either strongly agreed or agreed that they felt more confidence about managing money.

Under 3% disagreed in relation to both loans. In addition, more than two thirds of respondents said they were more satisfied with their overall financial circumstances since taking out their payroll, benefit or standard loan. Again, only a very small minority under 4% disagreed.

Over
60%
of borrowers feel
less stressed, anxious, or depressed

Low levels of financial resilience can have an impact on both mental and physical health.

The research shows that borrowing with the credit union seems to make respondents feel less stressed, anxious, or depressed after taking out their loan with 60% of payroll loan users, 61% of benefit loan users and 63% of standard loan users either strongly agreeing or agreeing that it had helped.

Key findings for credit unions

Fewer loan applications rejected with deduction lending

Analysis of one credit union's lending data suggests that applications for deduction lending tend to have much higher approval rates compared to those for standard loans using direct debit, standing orders or cash payments.

This is especially marked for its family loans which also tend to be for significantly smaller loan values.

Over the last three years, 55% of all applications for standard loans were shown to be rejected. This compares to 40% of payroll loans and just 7% of all applications for the family loans.

The credit union relates both these factors to the significant proportion of borrowers who top up at certain points within the year when they have repaid a certain proportion of their loans.

We note in our good practice guide that it's essential that thorough checks are done at the point of top up to ensure that the customers can still fully afford the loan.

Deduction lending appears to perform better

Importantly, benefit lending and especially payroll lending are shown to have markedly better performance than their standard lending, with much lower levels of arrears (both for arrears of 3 to 12 months and more than 12 months) and write offs.

The number of family loans written off are a much smaller proportion of total number of family loans (9%) than for standard loans (36%) and even payroll loans (17%).

The number of family loans in arrears of 3 to 12 months is 4% of the total number of loans outstanding compared to 10% for standard loans.

Loans repaid using payroll deduction fair even better with just 2% of loans in arrears of 3 to 12 months.

Similarly, both the number of family loans and payroll loans in arrears of 12 months plus is 3% and 4% compared to 10% for Standard Loans.

Conclusions

Overall, the research proves that the deduction lending model, delivered either via payroll deduction or benefit deduction, can be a popular, advantageous and positive way for credit unions to provide access to affordable credit for low income households.

It helps foster financial improvements and wider health and wellbeing benefits as well as encouraging positive saving behaviours – especially among those that previously found it difficult to put aside money.

As well as evidencing the benefits for borrowers, the research also points to deduction lending being positive for credit unions. It enables them to deliver low cost lending to more financially vulnerable households who might otherwise have few options beyond high cost and more disadvantageous subprime credit.

And the research shows how this type of lending is performing better for credit unions, with much lower levels of arrears and write offs.

Some stakeholders we interviewed raised concerns that deduction lending could be detrimental for customers on low incomes. We found that these concerns were not substantiated through the research.

Of course, credit provision to lower income customers, who are often in more financially vulnerable circumstances, has inherent risks.

Automatic deduction may also pose potential risks that have to be mitigated, but this research has demonstrated that if delivered appropriately, the model can offer huge benefits to customers.

This makes the learning identified in this research around what is working well among the participating credit unions even more important.

Deduction lending is a credible and effective way of extending access to affordable credit for lower income households.

It offers a tangible and scalable solution that could help divert households away from high cost credit and illegal forms of lending and into fair, responsible and affordable borrowing with credit unions that can realise positive benefits for these households.

In our recommendations below, we've brought together the good practice seen throughout the research into a short guide that can be further adopted by the credit union sector in order to extend and enhance this form of lending.

More broadly, our recommendations consider what can be done by stakeholders to scale both payroll and benefit lending in order to extend credit to those within society that currently have very few suitable options.

Recommendations

1

More employers should partner with credit unions to deliver payroll deduction schemes to their employees.

This research has demonstrated the huge benefits that payroll lending by non profit community finance organisations can deliver for employees, including improved wellbeing, improved satisfaction with finances and increased savings levels.

2

Payroll deduction should become a policy priority for business organisations, trade bodies, funders, central and local government, and civil society.

To address the lack of access to affordable credit as well as encouraging savings among squeezed and struggling households, key stakeholders should deliver an ambitious and collaborative national strategy scale up payroll savings and borrowing, including:

- Payroll deduction schemes should be included in good practice charters and kitemarks for employers
- Trade bodies and business organisations should promote the benefits of payroll lending and saving among their members
- Central and local government should provide credit union payroll deduction schemes to their staff

3

Stakeholders working with financially excluded people such as local authorities, social housing providers and the DWP, should work with credit unions to promote access to benefit lending.

This type of lending is hugely underutilised as an effective way of giving low income households access to responsible and affordable credit that provides a real alternative to high cost borrowing or going without. Key stakeholders with an established primary financial relationship with financially vulnerable households can play a big role in promoting benefit lending.

4

Debt advice and credit union trade bodies should find out more about each other's work and agree productive ways to work together.

The research has identified a lack of understanding and in some cases tensions locally between credit unions and debt advice organisations, especially in relation to the Child Benefit loans. Stronger links between credit unions and debt advice organisations would improve awareness and appreciation of each other's important role and activities in both preventing and supporting financial harm. Credit unions and debt advisors should work constructively together in the best interests of their members and clients.

5

HMRC should work with credit union trade bodies to formalise and streamline the notification process to reduce waiting times for Child Benefit loans.

The initial process of transferring funds from HMRC to credit unions can take between 4 to 6 weeks and identifying beneficiaries can be a complicated manual process for credit unions.

6

Credit unions and trade bodies should make use of the good practice highlighted by this research in delivering deduction loans.

This research has demonstrated the huge benefits this form of lending can provide to customers if delivered appropriately. We have set out good practice used by credit unions participating in this research below, for others to draw on. Trade bodies are well placed to share best practice, offer training, and ensure that their members follow high standards when delivering deduction loans.

Good practice in deduction lending

Based on our conversations with participating credit unions and other stakeholders, along with analysis of the differences in borrower survey results between different credit unions, we've outlined a series of good practice behaviours for the delivery of payroll and benefit deducted lending by credit unions.

These highlight good practice that could be further encouraged as well as areas to be addressed to improve the delivery of these loans and help scale affordable credit provision for low to medium income households.

This list is meant to be complementary to existing regulatory standards and good practice guidance, such as our Affordable Credit Code of Practice. Some of the behaviours overlap with these standards where we have wanted to highlight their relevance to deduction lending.

Category	Good practice	Additional Information and context
Loan application and assessment	Always conduct thorough affordability assessments for both new and repeat loans	Positive survey results around affordability and low rates of financial difficulty indicate that participating credit unions were demonstrating best practice in affordability assessment. It's essential that the good performance of deduction loans doesn't mean affordability assessments are treated differently by lenders. Wider adoption of Open Banking would support quicker and more accurate assessment of affordability. Most of the participating credit

Category	Good practice	Additional Information and context
		unions were already utilising Open Banking technology to help satisfy themselves that the applicant can afford the loan repayments by verifying income and expenditure (as well as validating the wage payments from a particular employer or the receipt of certain benefits). Some in the sector still verify affordability by requesting bank statements and manually reviewing.
Loan application and assessment	Use credit checks to complement affordability assessments where a more complete picture of applicant's existing borrowing commitments is needed.	For many lenders, affordability assessments especially where Open Banking is adopted provide a more effective and accurate method of understanding an applicant's financial circumstances and making responsible decisions than using credit searches. This is especially true for applicants that have historic financial issues or thin credit files but can afford the loan repayments. Given the high repayment rates of deduction lending, credit unions should also consider credit reporting as means to improve the credit scores of borrowers. Where credit searches are conducted, applicants should be clearly informed, as the survey results show that a proportion of borrowers were sometimes unclear if one has been carried out.
Repeat lending and topping up	Ensure that there are robust criteria and processes in place for repeat borrowing and topping up existing lending.	Processes around repeat borrowing and topping up should prevent borrowers from being overextended and ensure that repayments are still affordable for their financial circumstances at that time.

Category	Good practice	Additional Information and context
Financial difficulties and support	Put in place additional monitoring and positive communications to make sure that borrowers who are experiencing difficulties feel supported and able to contact the credit union if they are struggling.	Proactive communications, monitoring for financial difficulty, and providing flexible forbearance can encourage the customer to contact the credit union for support. This will help address a small but important proportion of consulted borrowers who experienced difficulties during the lifetime of their loan. This also ensures that the automatic deduction mechanism doesn't lead to customers making repayments that they can no longer afford. The research found no differences between the proportion of customers experiencing financial difficulty across the different loan types, suggesting that the participating credit unions were demonstrating good practice and the automatic mechanism was not causing difficulties for borrowers.
Financial difficulties and support	When setting up a Child Benefit loan, inform all borrowers at the point of approval of the details of the credit union destination bank account.	Credit union bank account information should always be communicated to each new borrower. As above, borrowers should be encouraged to reach out for support from the credit union if they need support or are struggling with repayments. But sharing this information upfront, and never withholding it if requested will ensure that borrowers always have control over their Child Benefit payments.

Category	Good practice	Additional Information and context
Financial difficulties and support	Offer a package of financial tools, support and guidance for both existing members and declined applicants.	This might include: • Embedding automated benefit entitlement checks into loan applications to maximise incomes • Direct referrals to local or national debt advice support to those identified as overindebted • Budgeting tools and services, provision of information on welfare grants offered by their local authorities, energy providers and benevolent charities • Promotion of social tariffs and other appropriate financial support
Marketing and promotion	Use the positive experience and impact evidenced among deduction lending as the basis for proactive promotional campaigns for these products.	The perceived sensitive nature of Child Benefit lending has seen many credit unions not advertising these types of loans for fear of negative publicity. Equally, some employers have expressed reservations about explicitly promoting lending to their workforces. The key advantages should be emphasised in messaging around: • Levels of overall satisfaction • The positive financial and wellbeing impacts experienced by borrowers • Levels of savings realised by households • The ease of loan repayments from payroll or benefit deductions
Marketing and promotion	Marketing should avoid referring to the	Some credit unions have advertised Child Benefit loans with the phrase

Category	Good practice	Additional Information and context
	lack of credit checks	'no credit checks', meaning specifically that searches at credit referencing agencies won't be used, as this can put off customers with impaired credit history from applying. The FCA has stated that this is misleading as it could cause customers to think that no creditworthiness assessments or affordability checks will be conducted. Instead, credit unions could promote that anyone can be considered for deduction lending, including those with poor credit history.
Marketing and promotion	Regularly report to employer partners and other stakeholders (such as local authorities) to demonstrate the beneficial impact of their relationship.	None of the employer interviewees had awareness of the scale of lending to their workforces and in some cases even how many staff were members.
Marketing and promotion	Reassure payroll lending customers that their finances will remain private from their employer and make clear the process that happens if a borrower leaves their current employer.	This research has shown that the majority of payroll lending customers do not perceive any negative impacts on their relationship with their employer. However, credit unions should take steps to reassure the minority who still have concerns.
Additional product improvements	Offer automated transfers of residual balances of Child Benefit payments back to borrower's bank account after both loan repayment and any savings have been allocated.	Some credit unions already enable this facility, which can support members with financial budgeting especially if released weekly. Yet the majority rely on members to withdraw funds themselves, which is shown to work well for those able to access their credit union account online or via an app but will prove more difficult and costly for those more digitally excluded.

Methodology

Methodology overview

The research team adopted a broad evaluation framework that combined quantitative and qualitative approaches:

Research method	Description
Literature review	Providing context from the existing research on this topic
Qualitative stakeholder interviews	Interviewed 26 key stakeholders – including lenders, debt advisors, employers, and consumer experts - to gain their views of both the benefits and risks of deduction lending
Quantitative borrower survey	An extensive survey was conducted with 7,559 borrowers from seven participating credit unions that had taken any type of loan of £1,500 or less over the last three years – allowing comparison between different types of lending
Qualitative borrower interviews	Conducted interviews with 20 borrowers to gauge in more depth the reason behind either more positive or more negative views
Quantitative lending data	Analysis of available credit union lending data obtained across payroll, benefit and standard loans

Borrower cohort

The focus of the research is borrowing among low to medium income borrowers using the proxy of any member taking a low value loan equal to £1,500 or less (either as new borrowing or topping up of an existing loan) from the participating credit unions over the previous three year period covering January 2019 and December 2021.

Loan comparison with subprime lenders - borrowing £500 over 12 months (52 weeks)

With severely restricted borrowing options available to many low income families, benefit lending can save these households hundreds of pounds in interest compared to borrowing from subprime lenders.

	Family loan with Clockwise Credit Union	Home collected credit with a leading provider	High cost short term credit with a leading provider
Representative APR	42.60%	342.94%	1,261.00%
Monthly payment	£50.23	£81.25	£83.33
Amount of interest	£102.76	£475.00	£500.00
Total Repayable	£602.76	£975.00	£1,000.00
Difference in total cost	-	**£372.24**	**£397.24**

Source: Price quotes taken from leading company websites on 25/01/23

Acknowledgements

We would like to thank the Financial Inclusion Centre and the Swoboda Research Centre for leading this project. You can access the full research report findings with customer case studies here.

We're also hugely grateful to all the credit unions and their members who took part in the research and gave us such a rich data set and compelling human stories about the impact deduction lending has had on their lives.

The Financial Inclusion Centre

The Financial Inclusion Centre (FIC) is an independent research and policy innovation think tank dedicated to promoting financial inclusion and fair, efficient, competitive and accountable financial markets.

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The Swoboda Research Centre

The Swoboda Research Centre (SRC) is an independent research organisation that undertakes practice-orientation research, leads on ideas and innovations, and explores tested solutions primarily related to credit unions in Britain and Ireland. It works in collaboration with Liverpool John Moores University.

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fair4all finance

Participating credit unions

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Clockwise Credit Union
safe savings & affordable loans

The coop Credit Union

ECU Enterprise Credit Union

Leeds Credit Union

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Manchester Credit Union