



FINANCE

Isn't it time you got a fair deal?

Annual
Report
2019



Matthew Jones
Chair of
Fair Finance

This has been a year of mixed outcomes for Fair Finance. The encouraging progress we are able to report regarding the continued growth and improved performance of our personal loans business and the work of Fair Money Advice has contrasted sharply with the funding challenges we faced in our business loans operations which ultimately led to a strategic decision to withdraw from the business loans market.

As we press forward with delivering our important mission, we continue to find that securing access to appropriate funding for our business absorbs a significant proportion of our time. We remain extremely fortunate to have the benefit of the long-term support of a committed group of investors and funders, including UniCredit and Shawbrook as well as those who have recently become holders of our Transferable Shares, and we are very grateful to all of them for the vital role they play in enabling us to continue our work.

The challenges we face in our on-going journey towards delivering our mission with the greater scale and impact it demands, as well as towards financial sustainability, highlight that in our experience there is still a sectoral need for a patient capital product that is better aligned with the needs of growing social enterprise businesses like ours. Our creation of a class of Transferable Shares is one response to this challenge.

“ From a strategic perspective, the coming year will see us refocus our operations on our personal lending business as well as advice to the financially vulnerable, building on the successes to date.

We are seeing important advances in these product areas, in particular with continued growth in lending activity and the broadening of our distribution channels, with the expansion of our online and telephone services. Alongside this, we aim to continue to improve our financial performance, while also maintaining our focus on managing credit risk. As we continue to move towards financial sustainability in the personal loans business, we hope to be able to demonstrate to all our stakeholders – including our customers, funders and investors - that our social enterprise model can support and sustain our mission successfully.

On behalf of the Board, I would like to take this opportunity to thank all of the staff of Fair Finance for their dedication and contribution over the last year.



Faisal Rahman OBE
Managing Director of
Fair Finance

I'm proud to share with you our 2019 Annual Report celebrating 14th year of operations. This year we've seen a record year for Fair Personal Loans, in growth and impact: over £4.6m has been lent to people unable to access mainstream finance, saving them just over £2.5m in interest by replacing high cost creditors. The service has navigated branch moves, introducing new technology and is scaling its services online to customers across the country.

Fair Money Advice has established its place as a quality provider of free debt advice to Londoners helping over 1,300 people manage multiple debts and begin a path to financial sustainability. This year we secured our first Local Authority funding contract and secured support from the Money & Pensions Service to provide free advice for the next eighteen months.

During the year we took the difficult decision to close Fair Business Loans. Launched in 2013/14 the service scaled quickly using smart technology and partnerships to serve thousands of entrepreneurs across the country. The market for this work has changed rapidly, one driven more by technology, speed and significant investment need. We exit the market having helped improve the transparency and awareness of the issues that many small businesses face.

As we celebrate our 14th year of serving communities unable to access finance it is worth noting that much has improved in the lives of our customers. Government policy has helped to reduce exclusion; the regulatory environment has shut down bad practice, and what was once a niche sector has come to public awareness.

However from our own observations we have seen the lives of our customers characterised by increasing income instability due to the rise of part time work and zero hours contracts, increasing difficulty in accessing affordable finance options and the rise of problem debt.

“ We recognise the importance and challenge of helping our clients manage their increasing financial vulnerability—both from their perspective and for Fair Finance.

During the year we completed a piece of research on our client's financial lives, looking deeply at how they manage their finances and how they engage with financial providers. With the support of JPM Foundation we will take this research and begin trailing a series of interventions to help improve the financial decision making of all of our clients.

The last few years have focused on the growth of our products; the coming year builds on this and focuses on our clients. We want to ensure that we help our clients improve their financial resilience and ability to manage shocks. Doing this will make them and us financially sustainable.

The Issue

“Financial exclusion is the inability, difficulty or reluctance to access mainstream financial services, which, without intervention, can stimulate social exclusion, poverty and inequality.”¹

1.23m people
remain unbanked²

36,000 people
were evicted from
their properties in 2017³

£1,326
was the total cost of
a fridge freezer in 2015
from rent-to-own firm
BrightHouse⁴

1,500%
is a typical APR
of a payday loan⁵

100,000 people
became insolvent in 2017⁷

8m people
struggling to keep up
with the bills and credit
commitments in 2017⁶

8-9m people
use non standard
finance regularly⁸

¹ <https://publications.parliament.uk/pa/ld201617/ldselect/ldfinexcl/132/132.pdf>

² <https://www.birmingham.ac.uk/Documents/college-social-sciences/social-policy/CHASM/financial-inclusion/financial-inclusion-2018-briefing-paper.pdf>

³ <https://www.birmingham.ac.uk/Documents/college-social-sciences/social-policy/CHASM/financial-inclusion/financial-inclusion-2018-briefing-paper.pdf>

⁴ <https://www.citizensadvice.org.uk/Global/CitizensAdvice/Debt%20and%20Money%20Publications/FINALRENTTOOWNREPORT%20%284%29.pdf>

⁵ <https://www.moneyadviceservice.org.uk/en/articles/payday-loans-what-you-need-to-know/what-payday-loans-cost-you>

⁶ <https://www.birmingham.ac.uk/Documents/college-social-sciences/social-policy/CHASM/financial-inclusion/financial-inclusion-2018-briefing-paper.pdf>

⁷ <https://www.birmingham.ac.uk/Documents/college-social-sciences/social-policy/CHASM/financial-inclusion/financial-inclusion-2018-briefing-paper.pdf>

⁸ Various including Provident Annual Report, NSF website, Morses Club and FCA

Fair Finance

Our vision is to revolutionise financial services to make it more inclusive and fair for everyone. We do this by designing and delivering financial services that improve financial wellbeing and have a positive impact on our clients.

SINCE OUR LAUNCH...

£30 million
has been extended to those who are
excluded by mainstream finance

88,630 people
have been helped by us with advice,
loans and support

£99 million
GVA benefit to communities
through business lending*

2,340 jobs
sustained or
created

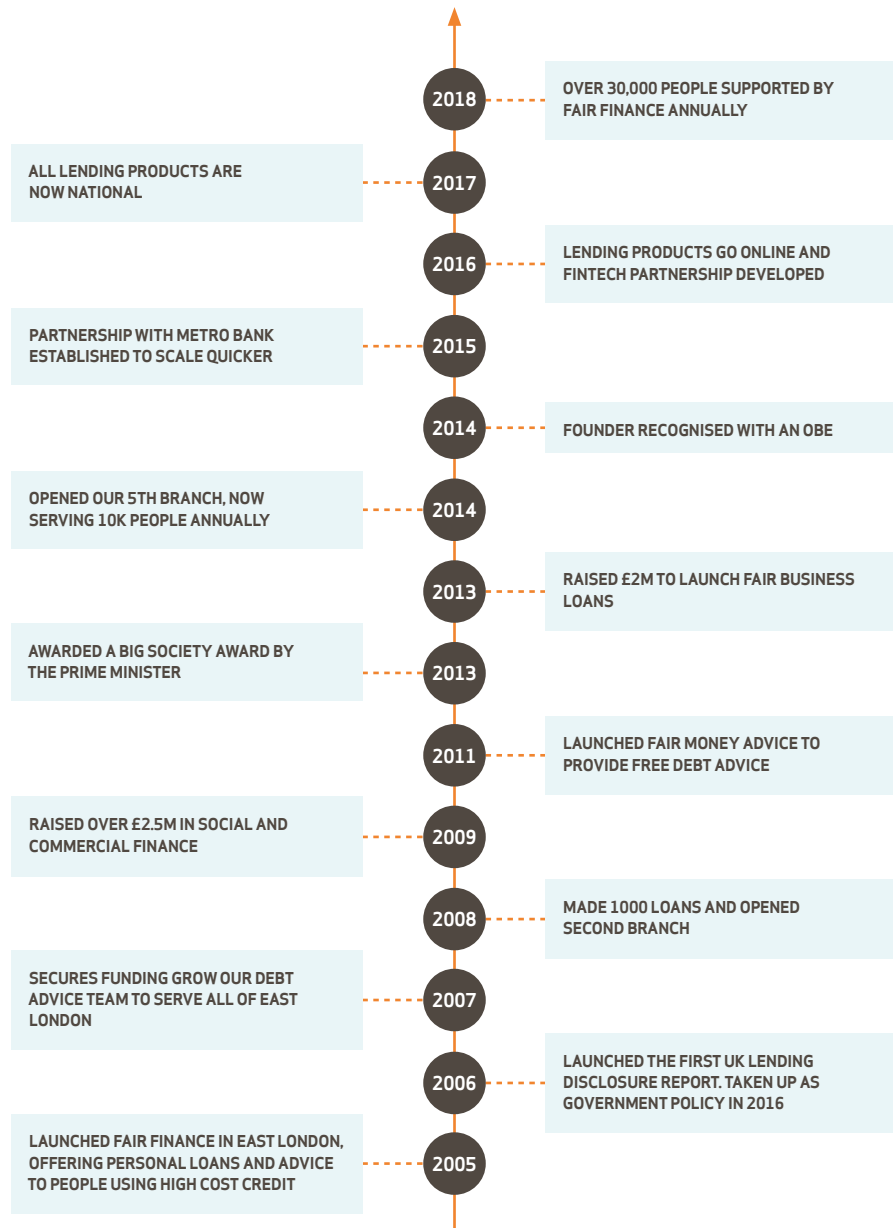
£67.1 million
debts managed and
advised on

£13 million
interest saved by refinancing
people out of high cost lenders

* GVA is the net Gross Value Added and is calculated based on the Economic Impact Tool designed by Responsible Finance



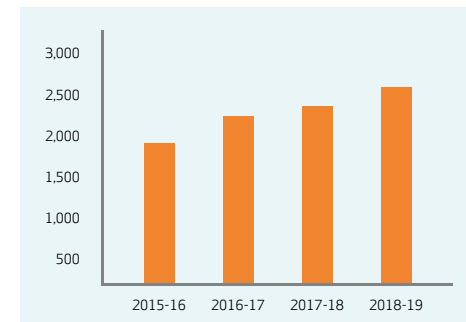
Timeline



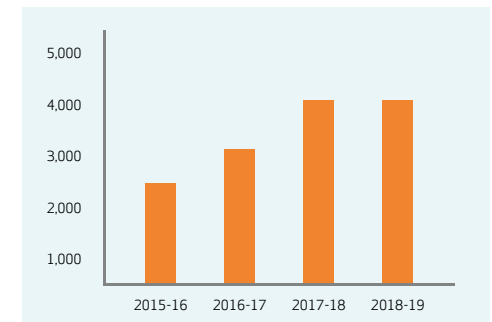
What We Do

| <p>PERSONAL LOANS</p> <p>AFFORDABLE PERSONAL LOANS TO INDIVIDUALS WHO DON'T HAVE ANY OR HAVE ONLY LIMITED ACCESS TO MAINSTREAM FINANCE.</p> | <p>BUSINESS LOANS</p> <p>A FUNDING PRODUCT AND SERVICE FOR SMALL AND MICRO-BUSINESS OWNERS/ THE SELF EMPLOYED TO RESPONSIBLY SUPPORT FINANCIALLY EXCLUDED BUSINESSES.</p> | <p>MONEY ADVICE</p> <p>PROVIDING DEBT ADVICE AND FINANCIAL CAPABILITY SERVICES, HELPING INDIVIDUALS REGAIN CONTROL OF THEIR MONEY.</p> |
|--|--|---|

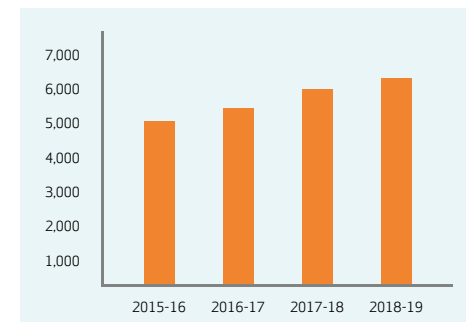
TURNOVER (£K)



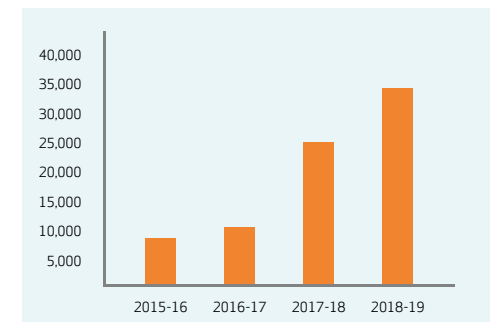
LOANS OUTSTANDING (£K)



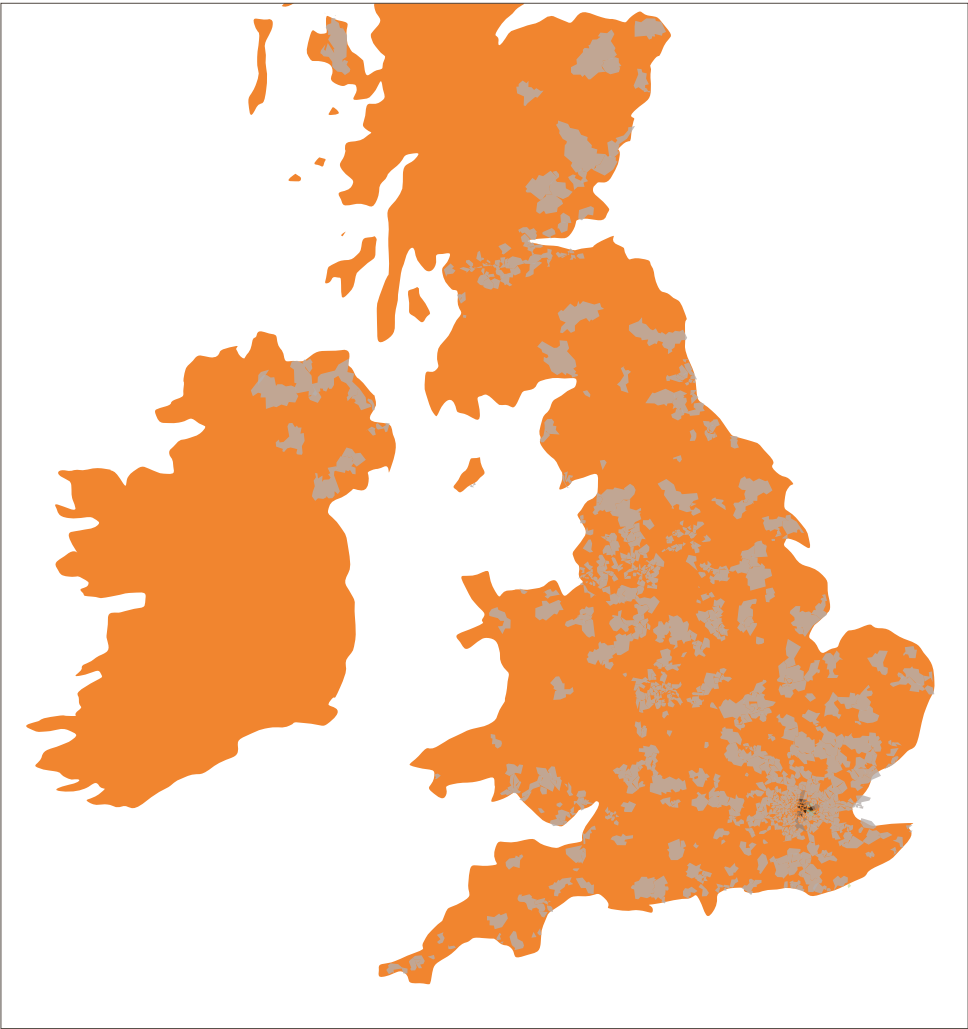
CLIENTS



PEOPLE SUPPORTED



Where Our Clients Live: National



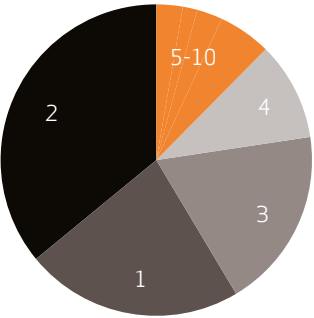
The maps here detail all the loans Fair Finance has made since we launched in 2005. This shows the impact that Fair Finance has on financially

excluded communities around the UK. The map shows postcode districts for all of the UK. The map and all data are on our website.

Where Our Clients Live: London

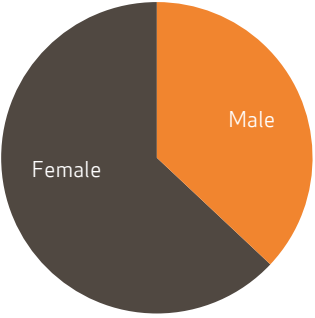


CLIENT LOCATION BY IMD SCORE*



This chart shows that over 75% of our clients live in the 30% most deprived areas of the UK.

CLIENT GENDER



37% of our clients are male and 63% are female.

*IMD is the Index of Multiple Deprivation, is a Government metric that includes multiple factors to assess the deprivation of areas. The score is in deciles ie 1 is the bottom 10% of the IMD scores.

Fair Personal Loans (FPL) offers responsible and affordable loans to those who are under-served by the mainstream finance sector. Many of our customers would be classed as “vulnerable” by mainstream financial services organisations.

We have designed a business model that supports our customers with a high level of engagement, including personalised underwriting, flexible repayment terms or access to money advice, taking into account individual circumstances and focusing on positive client outcomes.

While we serve customers across the UK by phone and online, it is our branch network that still attracts those who are facing the greatest barriers to access credit.

OUR CLIENTS



FAIR PERSONAL LOANS IN 2018/19

PRODUCT AND SERVICE DELIVERY

- > **OPENED A NEW BRANCH IN BRIXTON DUE TO THE IMMINENT CLOSURE OF THE ELEPHANT & CASTLE SHOPPING CENTRE.**
- > **LAUNCHED A TELEPHONE LOAN SERVICE FOR CLIENTS WHO ARE UNABLE TO APPLY ONLINE AND CANNOT COME TO ONE OF OUR BRANCHES.**
- > **CONTRACTED A DIGITAL MARKETING AGENCY TO MANAGE OUR INCREASINGLY IMPORTANT ONLINE CHANNEL.**

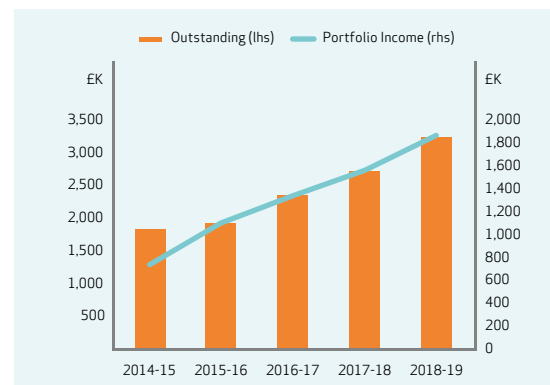
EFFICIENCY AND CREDIT RISK

- > **IMPLEMENTED A CREDIT DECISION ENGINE THAT WILL ALLOW BETTER QUALITY, CONSISTENCY AND OPERATIONAL EFFICIENCY OF OUR UNDERWRITING PROCESS.**

PRICING

- > **PUT IN PLACE A NEW PRICING STRUCTURE, SIMPLIFYING PRICING FOR CLIENTS, MAKING PRICING FAIRER AND GIVING MORE BACK TO EXISTING CLIENTS.**

LOAN BOOK AND INCOME



OUR IMPACT

- | |
|---|
| ✓ We helped 25,000 individuals with either loans or sign-posting to advice organisations |
| ✓ We saved our clients £2.6m by substituting high cost subprime loans with cheaper Fair Finance loans |
| ✓ Advanced £4.6m to people unable to access mainstream finance |
| ✓ Made nearly 5,000 loans to replace high cost lenders |

ANDREI (NOT HIS REAL NAME)

Originally from Romania, Andrei has been living in a shared flat in London as a self employed handy man for the last two years. So far he's only been able to access expensive finance from payday and sub prime lenders, but he's been able to pay his way and make a living for himself.

He wanted to buy better tools and deliver on some higher value contracts but has been repeatedly declined, partly due to his lack of credit history but also the language barrier.

He came to Fair Finance on a recommendation from a friend and because he knew we had Romanian speakers working in the organisation. He applied for a loan but we weren't able to approve the full amount based on our affordability and credit assessment.

However, we realised that if we could improve his credit rating he'd be able to get access to cheaper finance and bills in the future. We explained the importance of his credit rating in the UK, gave him some guidance and helped him open an account on 'Credit Karma' so that he could track and build his credit file.

Within a month he was able to access cheaper finance from a bank and taken on the bigger contracts earning more money. He's now moved out of the shared house and into a studio flat. He is also saving for a deposit to buy a home.

“ When you think nobody can help, Fair Finance came and saved the day. When you have credit issues you worry that nobody will help. Well Fair Finance are different. Please please give them a go. They saved the day for me.

CLAIRE, FPL CLIENT

Fair Business Loans was established in 2014 because we believed that viable businesses were being excluded by simplistic credit scores, and the poorest suffering the most. We wanted to do something about it, and offer an alternative to the growing market of high cost alternative finance.

KEY STATS

- > **£22BN—ESTIMATED GAP BETWEEN AMOUNT AVAILABLE FOR SMEs AND THE FINANCE THEY NEED.¹**
- > **38%—OF SME LESS THAN FIVE YEARS OLD HAVE THEIR APPLICATION FOR FINANCE REJECTED BY BANKS.²**

We created a simple, flexible and collateral free lending product that could be accessed in the branch and also online. We used technology to help us scale and deliver an efficient service to busy entrepreneurs.

However we employed human underwriters who could look at every loan individually and build a relationship with every client. This allowed us to understand the needs of every business who applied and make loans where others couldn't.

KEY ACHIEVEMENTS

| | |
|---|---|
| ✓ | First commercial funding raise in the UK microfinance sector |
| ✓ | Developed a national microfinance organisation that grew at 60% per annum |
| ✓ | First microfinance organisation to partner and digitally integrated with the national SME funding platforms |
| ✓ | Partnership with a retail bank to increase our access to clients |
| ✓ | Campaigned to profile the lack of price transparency in small business lending, contributing to changes in government policy. |

¹ Improving Access to Finance for SMEs" – National Audit Office, 2013

² Improving Access to Finance for SMEs" – National Audit Office, 2013

In 2018 we decided to stop offering this product and focus our limited resources on our personal and money advice services.

The market for small business lending is rapidly changing, becoming increasingly technology and scale focused which requires significant investment. In addition the options available today for small businesses are very different from 2013 and increasing government scrutiny means that many of the issues we highlighted are being addressed.

We learnt a lot, helped many people and helped to change the market for the better.

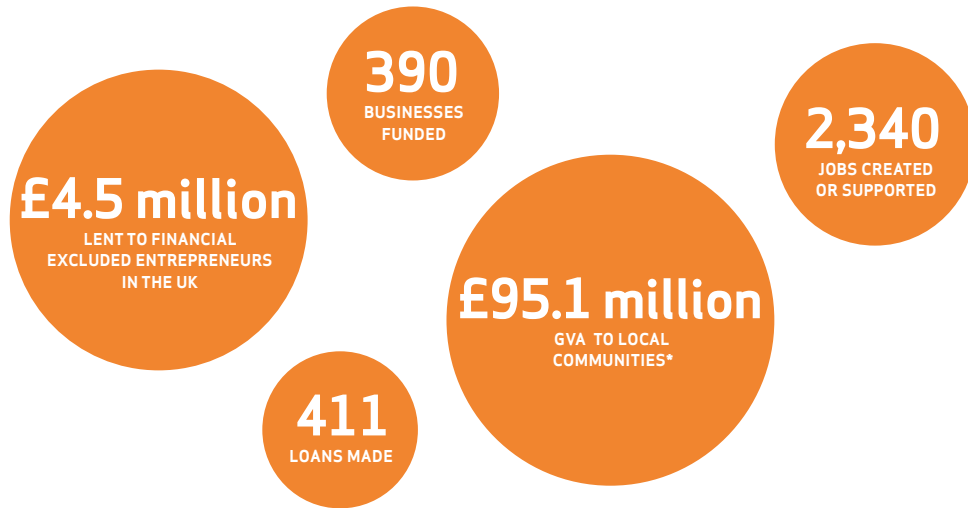
We want to thank all the supporters and funders who helped us grow this idea into a national service.

We also want to thank the dedicated staff who worked tirelessly to create a service that put the customer and their needs first in every decision they made.



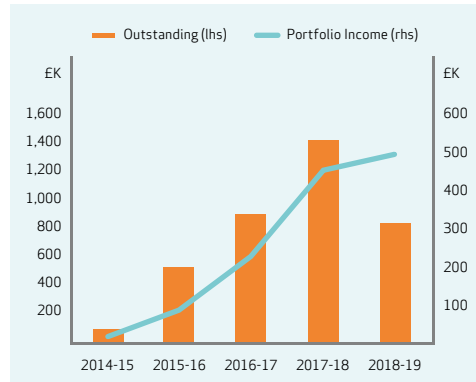
The FBL team in 2018.

SOCIAL IMPACT 2014-2018

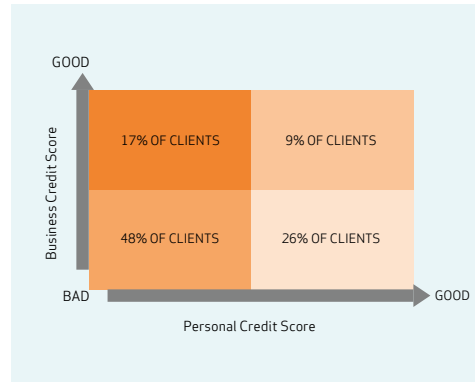


* GVA is Gross Value Added and is calculated based on the Economic Impact Tool designed by Responsible Finance

BUSINESS GROWTH



FBL CLIENT CREDIT SCORES



“ Without the support of Fair Business Loans we would not be here delivering services in Tower Hamlets today.

JONATHAN HEMS, J-GO CONSULTING

Fair Money Advice (FMA) delivers debt advisory and financial education services. We provide a local, accessible and relevant debt advice services to clients with complex multiple needs and preventative financial capability programmes to strengthen financial literacy and resilience in London.

FMA primarily provides debt advice services face-to-face, but our email and telephone services continue to expand to ensure clients who are time poor, and vulnerable, are able to access services in a way that meets their needs.

FMA PROVIDES FREE ASSISTANCE FOR

| | | | | |
|-------------------|--------------------|-----------------------------|--|-------------------------------|
| Maximizing Income | Renegotiating Debt | Making Benefit Applications | Liaising with Creditors, DCAs and Bailiffs | Financial Capability Services |
|-------------------|--------------------|-----------------------------|--|-------------------------------|

FAIR MONEY ADVICE IN 2018/19

- > **SUCCESSFULLY TENDERED FOR AND AWARDED OUR FIRST LOCAL AUTHORITY ADVICE CONTRACT**
- > **DELIVERED OUR FIRST FINANCIAL CAPABILITY SESSIONS SPECIFICALLY FOR YOUNG PEOPLE. ATTENDED BY 47 YOUNG PEOPLE**
- > **EXPANDED OUR TELEPHONE ASSESSMENT SERVICES TO BETTER ENSURE THAT VULNERABLE CLIENTS RECEIVE ADDITIONAL SUPPORT**
- > **SECURED 18 MONTHS FUNDING FROM THE MONEY AND PENSIONS SERVICE**

OUR CLIENTS

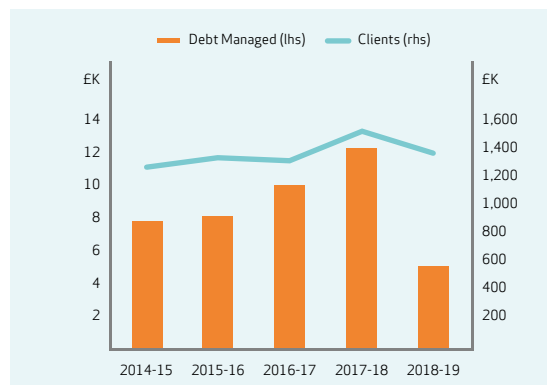
FMA clients can be defined as being over-indebted i.e. keeping up with payments is a struggle and they have fallen behind on, or have missed, payments in any three or more months in the last six months. This is estimated to describe around nine million people in the UK.

Significantly, our clients have less consumer debts now than at any stage over the last five years and are increasingly struggling to meet their priority debt payments—namely, rent, council tax and utility debts.



* BAME: Black And Minority Ethnic

DEBT MANAGED



OUR IMPACT

| |
|--|
| ✓ Assisted over 1,300 clients |
| ✓ Prevented 262 evictions |
| ✓ Managed over £5.2 million worth of debts |
| ✓ Secured over £60,000 of additional income |
| ✓ Cleared over £300,000 in consumer debts |
| ✓ Trained 72 participants in group financial capability sessions |

MRS A

Mrs A is a single person who lives with one non-dependant. She suffers from many long-term health conditions and she is unable to do daily tasks to take care of herself.

Her daughter helps care for her, but due to her immigration status she is unable to claim carers allowance or any other benefits. Her daughter's financial hardship impacts Mrs A as she must also support her financially.

Mrs A came to see us as a creditor was taking court action against her. At the appointment we established that she also had rent, gas and electricity arrears; a loan, a credit card and a debt owed to a friend.

Mrs A wanted to apply for a debt relief order, however, after further exploration we decided to request a write off based on her health issues.

We have helped the client to successfully request a write off for a loan of £5016 due to her health issues. We also established that the client's credit card debt is statute barred and therefore she cannot be pursued for the debt.

We are currently waiting for a trust fund decision which will hopefully write off utility debts of £2410.

Our client is now able to make payments towards her rent arrears and pay back her friend. She has also been referred for benefit and immigration advice for her daughter.

“ Before I came here I was anxious, couldn't eat and had even thought of killing myself. Thank you, I feel much less anxious and a have a clearer head.

FMA DEBT ADVICE CLIENT

Thank You

Fair Finance is supported by a number of organisations and individuals in delivering our mission. We are grateful to all of the following for their ongoing support:



Fair Finance is also generously supported by more than twenty individual social investors.

