

Progress Loans

Towards Affordable Credit for Low-Income Australians



Financial exclusion



Many Australians struggle to access appropriate low-cost, fair and safe credit from mainstream providers. Research has found that six per cent of adults have minimal access to financial services and around 120,000 people could be considered financially excluded, with no ownership of financial products (Chant Link 2004, p.9).

Financial exclusion occurs when certain groups have limited access to credit, savings, insurance and other financial products. People on low incomes are more likely to experience financial exclusion. They either go without essential items or use 'fringe' financial services, such as pawnbrokers, loan sharks and payday lenders (Wilson 2002; Burkett 2003).

ANZ's role



“I just can’t walk into a bank and ask the bank to give me a loan for money because I haven’t got a job, I’ve got no assets behind me or anything like that.”

At ANZ, we acknowledged that our business was under-serving, and in many cases excluding, segments of our community, and that this may have inadvertently led them to fringe lenders and other options which might exacerbate their financial stress.

Automated assessment processes and tightening risk criteria have contributed to this, as has product design and marketing which could better consider the specific needs of low-income earners.



Working in partnership



We looked to the Brotherhood, one of our long standing community partners, to assist us to improve our performance and deepen our understanding of the needs and capacity of those on low incomes.

Working in partnership allows us to combine our skills as a financial service provider with the Brotherhood's expertise in designing and delivering programs for low income people and their extensive connections in the communities they serve.

“It’s stressful to think that you can’t afford the things that you need and they’re pretty basic things. It makes you feel awful and your self-esteem goes down. And being able to just get them and not have any hassles about getting a loan, it’s just fantastic.”



The Brotherhood



The Brotherhood has been involved with small loans programs for many years, having supported the establishment of the Fitzroy–Carlton Community Credit Co-operative in the 1970s.

The Brotherhood has also operated the Good Shepherd's No Interest Loans Scheme (NILS®) for many years. The success of NILS demonstrates that people on low incomes are able to repay small loans. This experience encouraged the Brotherhood to work with banks to address the causes of financial exclusion.

In 2003, the Brotherhood commenced a partnership with Community Sector Banking (partly owned by Bendigo Bank) to pilot a small loans program that introduced customers to mainstream financial services.



Program features



The central aim of the Progress Loans program is to enable low-income consumers to access affordable, fair and safe mainstream finance to obtain basic items.

The target market is people who are managing their limited income well and can afford a loan, but are excluded from mainstream finance.

TABLE 1
KEY FEATURES: PROGRESS LOANS

Loan amounts	\$500 to \$3,000
Loan term	6 months to 3 years
Eligibility	Holders of Health Care or Pensioner Concession Card Able to make regular repayments Have been in current home for more than six months
Assessment	Specifically designed loan assessment criteria recognising typical spending patterns of people on low incomes (model provided by Brotherhood of St Laurence)
Interest rate	13.89% p.a. (fixed)
Approval fee	\$40 paid at loan draw-down
Purpose	Household items and services, vehicles, education and self-development, medical/dental care

Key Statistics



ANZ has funded three loan officer positions based at the Brotherhood of St Laurence offices in Frankston, Craigieburn and Fitzroy in Victoria.

These loan officers guide each client through the loan application, approval and draw-down process. ANZ assessors make the approval decisions and administer the loan funds.

TABLE 2

**KEY STATISTICS: PROGRESS LOANS PROGRAM
MAY 2006 – MAY 2009**

Number of loan applications	898
Number of loans approved	671
Number of loans drawn down	598
Number of loan customers	531
Average loan value	\$2,183
Loan default rate	1.2%

“I came down from another state through domestic violence. Had nothing, not even a fork, so I needed something to get all my things together again. It [the Progress Loan] was a life saver.”



Research



Research was commissioned by ANZ and the Brotherhood of St Laurence in mid 2008. The objectives included:

- identifying the effectiveness of the Progress Loans program in meeting financial needs
- identifying the customer experience with the Progress Loans program and ways to improve the program from a customer perspective
- identifying the positive social impacts derived from the Progress Loans program.

The methodology included comparing the demographic profile of customers with the program's target group, analysing responses to 200 structured phone interviews, and gathering more detailed qualitative data from focus groups and face-to-face interviews.

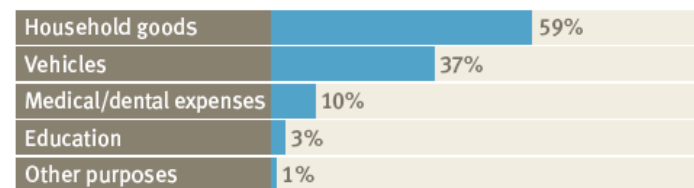


Loan purpose



The Progress Loans program was effective in helping customers address key financial needs. The loans assisted people to fund household and personal needs including items such as a fridge, freezer, washing machine, household furniture, or computer.

GRAPH 1: SUMMARY OF LOAN PURPOSES (n=200)



Another major use of the Progress Loan was to fund vehicle purchases or repairs, which enabled greater access to family and friends, provided mobility for those unable to use public transport and assisted in obtaining and maintaining employment.

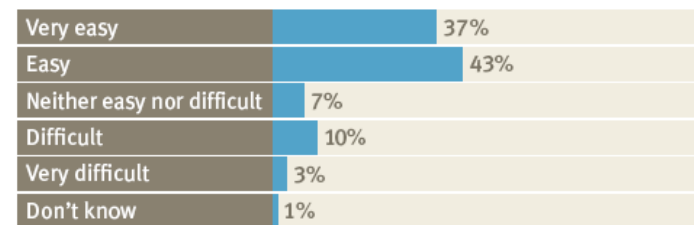
Customer Experience



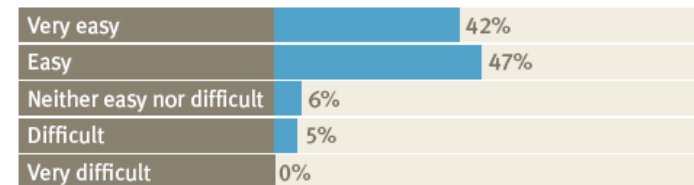
The majority of customers found the loan application process easy or very easy (80%), the speed of loan approval reasonable or fast (95%), the loan repayment process suitable (95%) and making loan repayments easy (89%).

Overall, the research showed that the experience for the majority of Progress Loan borrowers was positive, generating high levels of customer satisfaction.

GRAPH 2: EASE OF APPLICATION (n=200)



GRAPH 3: EASE OF MAKING REPAYMENTS (n=200)



Social Impact



Between a quarter and half of research participants believed they experienced a positive change in behaviours and skills since taking out their loan. This included improvements in financial literacy, such as better budgeting and money management skills (32%), a better understanding of loan contracts (42%) and a better understanding of interest rates (38%).

Many research participants also commented that the Progress Loan led to an improved quality of life (95%), reduced stress in the household (85%), greater independence (85%), improved self-confidence and self-esteem (83%) and increased ability to deal with an unexpected expense (31%).

GRAPH 4: POSITIVE CHANGES IN BEHAVIOUR OR SKILLS (n=200)



Case studies



JOHN'S CASE STUDY

'John' has poor health and the Progress Loan assisted him to purchase important medical equipment.

"I've been driving trucks for 40 years, diesel trucks ... The effect is that I am breathing on one lung and not two, which will never change, they can't do surgery, it's just survival."

"[Purchasing a machine to assist with breathing was] very important. I reckon if I hadn't got it when I did I wouldn't be here now, according to the respiratory specialist I see. Before that I used to have to run ... sometimes every second night I would be rushed to hospital because I had stopped breathing. Even walking around the yard, I would be doing something in the yard and I would just suddenly stop. With the machine now it gives me a better outcome; even though it's not a future."

"It had come to the point that I was almost ready to give up all the heart medication I was on to try and get money to pay for the machine."

SALLY'S CASE STUDY

'Sally' is a young sole parent. She used the Progress Loan to purchase a car, which assisted her to obtain employment and balance her job with the demands of two children. The additional income from working has helped her to afford weekends away and outings for the children. It has also helped her interact with other adults and families.

"If I didn't have the car then I wouldn't [work] ... it would be too hard because in between work I've got kinder pick-ups and drop-offs and school pick-ups and drop-offs. I'm in and out all the time. By having a car I can work."

"I can now save because I'm working so I'm earning extra money."

"I have met some of the mums of the kids that I teach that I've become friends with. We've done days at the museum. Having the car also enables me to do those sorts of things and working also helps to pay for those sorts of things."

Conclusions



A number of conclusions were drawn from the research findings:

- The Progress Loan is effective at addressing key financial needs of people on low incomes because it enables people to pay for basic household items.
- The program helps address financial exclusion by linking people on low incomes to the mainstream banking system and providing appropriate and affordable credit.
- The program generates a range of benefits for customers by providing cost efficiencies, fostering changed behaviours and skills and increasing self-confidence, independence and self-esteem.
- The program directly contributes to greater social inclusion by helping customers deal with a personal crisis (including family breakdown, loss of employment and health crisis); connect with family, friends and the local community; and obtain or remain in employment.

Next steps



- Given customers' positive experience with Progress Loans, there is scope to consider how affordable and safe credit could be made more widely available as part of efforts to reduce financial exclusion in Australia.
- Whilst some Progress Loans participants felt more confident to deal directly with a mainstream bank, they would likely be declined for a standard personal loan if they remained in their present circumstances.
- This challenge requires the Brotherhood of St Laurence and ANZ, and others, to continue to work innovatively to provide Australians on low-incomes access to affordable and appropriate credit.