

PROGRESS LOANS

**TOWARDS AFFORDABLE
CREDIT FOR LOW-INCOME
AUSTRALIANS**

VAWSER AND ASSOCIATES 2009



Brotherhood of St Laurence
Working for an Australia free of poverty



ACKNOWLEDGEMENTS

ANZ and the Brotherhood would like to thank a number of people for their assistance in producing this report: the Brotherhood of St Laurence loans officers who recruited respondents for the focus groups and face-to-face interviews, Stuart Vawser who led this research on behalf of Vawser and Associates, the MarketMetrics team who conducted the phone interviews, Deborah Patterson for her editorial assistance, and most particularly the Progress Loans customers who were so open in sharing their life situations and their experiences with the program.



FOREWORD – ANZ	2
FOREWORD – BROTHERHOOD OF ST LAURENCE	3
SUMMARY	4
1 INTRODUCTION	6
1.1 BACKGROUND TO THE PROGRAM	6
1.2 AIM AND NATURE OF PROGRESS LOANS	7
1.3 PROGRAM DELIVERY	7
1.4 SITUATION AFTER THREE YEARS	7
2 RESEARCH OBJECTIVES AND APPROACH	8
2.1 RESEARCH METHODOLOGY	8
2.2 ETHICS APPROVAL AND RESEARCH LIMITATIONS	8
2.3 PROFILE OF CUSTOMERS AND RESPONDENTS	9
3 MAIN FINDINGS AND CONCLUSIONS	11
3.1 EFFECTIVENESS OF THE PROGRESS LOANS PROGRAM IN ADDRESSING KEY FINANCIAL NEEDS	11
3.2 CUSTOMER EXPERIENCE WITH PROGRESS LOANS	13
3.3 SOCIAL IMPACTS OF THE PROGRESS LOANS PROGRAM	15
3.4 KEY PROGRAM FEATURES FOR LOW-INCOME PEOPLE	16
3.5 CUSTOMER EXPERIENCE WITH THE NILS PROGRAM	16
4 CONCLUSIONS	19
REFERENCES	20



FOREWORD ANZ

ANZ is pleased to release the first evaluation of the Progress Loans program in partnership with the Brotherhood of St Laurence. This research will strengthen our understanding of the customer experience with Progress Loans, and allow us to better understand the needs of low-income consumers.

Understanding our customers and developing innovative products that represent good value is something we do pretty well here at ANZ. We have not been as successful in providing safe and affordable credit to low-income or vulnerable consumers. 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 these groups.

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. 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. The Brotherhood's understanding of social exclusion and its experience in delivering other microfinance programs have been critical to the program's early success. Our financial inclusion partnership also includes the internationally recognised Saver Plus matched savings program, and the delivery of ANZ's MoneyMinded financial literacy resource.

The success of these programs is demonstrated by the experiences of our participants, and this report includes many stories, comments and feedback which really bring to life some of the positive outcomes from Progress Loans.

ANZ is committed to improving access to safe, fair and affordable credit, and we will use the findings in this report to continue to refine and improve the Progress Loans program with a view to making it available to more people in the future.

A handwritten signature in black ink, appearing to read 'John Harries'.

JOHN HARRIES
MANAGING DIRECTOR, RETAIL PRODUCTS



FOREWORD

BROTHERHOOD OF ST LAURENCE

In working towards an Australia free of poverty, the Brotherhood of St Laurence develops programs and promotes policy solutions that aim to build the personal capacities and material resources of individuals, families and communities. Our work in microfinance is an example of this, and reflects our belief that access to appropriate and affordable financial services promotes economic and social participation and ensures Australians are able to live a life of dignity.

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. A review of the pilot found that the program met customers’ needs by providing affordable credit and assisting them to obtain household items.

The Brotherhood also partnered with ANZ in 2003 to develop Saver Plus, a matched savings and financial education program. The Brotherhood also offers MoneyMinded (adult financial literacy education) to its clients across Victoria.

ANZ and the Brotherhood subsequently extended their partnership by launching Progress Loans in 2006. Together, ANZ and the Brotherhood are able to meet the objective of providing a mainstream loan to people on low incomes as each brings unique expertise, networks and resources to the partnership.

The publication of this evaluation of Progress Loans represents the Brotherhood’s commitment to independent analysis of the impact of its programs. It is especially pleasing that the evaluation finds that the program helps people on low incomes to finance basic needs, while also addressing financial exclusion by linking people on low incomes to the mainstream banking system.

A handwritten signature in black ink, appearing to read 'Sarina Greco', with a long horizontal flourish extending to the right.

SARINA GRECO
GENERAL MANAGER, COMMUNITY SERVICES

SUMMARY



This report reviews the Progress Loans program, which provides small personal loans of \$500 to \$3,000 to people on low incomes for the purchase of household goods and services. The program was developed by ANZ and the Brotherhood of St Laurence in 2006 and is delivered through the Brotherhood offices at Frankston, Fitzroy and Craigieburn.

The central aim of the Progress Loans program is to enable low-income consumers to access affordable, fair and safe mainstream finance to obtain necessary items. Progress Loans are designed for people who have a Health Care or Pensioner Concession Card, have been at their current home for more than six months and are able to make regular repayments. The target market is people who are managing their limited income well and can afford a loan, but are excluded from mainstream finance.

To date, 898 loan applications have been received, 671 loans have been approved (74.7%) and 598 loans have been drawn down (66.5%) by 531 individuals. The average loan value is \$2,183 and the default rate is around one per cent.

The main objectives of the research were to assess the effectiveness of the Progress Loans program in meeting the financial needs of consumers on low incomes and to identify ways to improve the program and strengthen its positive social impacts. 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.



“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.”

MAIN FINDINGS

Loan purposes: 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.

“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.”

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%).

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%).

“I understand more now, because up until a year or two ago, I have never had a loan.”

Research participants placed high value on dealing with one of the big four banks. Many participants anticipated having pride in their achievement after paying off their loan (98%) and valued the opportunity to establish a good track record with a major bank (97%).

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%).

“[The Progress Loan] gives me independence; I don’t have to rely on anybody.”

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 provides a positive customer experience for most and generates high levels of customer satisfaction.
- 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.

Given these conclusions and the positive impact of the Progress Loans program on customers, there is scope to consider how affordable and appropriate credit can be made more widely available in Australia.

1. INTRODUCTION



This report reviews the Progress Loans program, which provides small personal loans of \$500 to \$3,000 to low-income people for the purchase of household goods and services. The program was developed by ANZ and the Brotherhood of St Laurence in 2006 and is delivered through the Frankston, Fitzroy and Craigieburn Brotherhood offices.

1.1 BACKGROUND TO THE PROGRAM

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).

There are many reasons for financial exclusion. These include risk assessment policies and conditions attached to financial products which make them inaccessible to some people. Pricing can also mean that products are unaffordable for many people on low incomes. In addition, the marketing of financial products is often not designed to meet the needs of people on low-incomes. Finally, many people exclude themselves as they decide there is little point applying for a financial product because they believe they would be refused (Kempson & Whyley 1999a, 1999b).

Drawing on both parties' earlier work in financial literacy and affordable credit, ANZ and the Brotherhood developed Progress Loans in 2006 to address these issues and promote access to safe, fair and affordable credit for those on low-incomes. The Brotherhood markets the program and, using its experience in working with people on low-incomes, guides customers through the loan application, approval and draw-down process. ANZ contributes expertise in credit analysis and marketing, as well as the systems to track payments and access to the branch network. ANZ also funds loan capital, defaults and loan officer salaries.

The Progress Loans program seeks to promote social inclusion, which 'focuses on investing in the disadvantaged and their communities to bring them into the mainstream economy and society. It involves building the personal capacities and material resources of individuals, families and communities in order to fulfil each person's potential for economic and social participation and a life of dignity' (Brotherhood of St Laurence 2009). The Australian Government (2009) states that to be socially included, 'all Australians must be given the opportunity to: secure a job; access services; connect with others in life through family, friends, work, personal interests and local community; deal with a personal crisis such as ill health, bereavement or the loss of a job; and have their voice heard'.



1.2 AIM AND NATURE OF PROGRESS LOANS

The central aim of the Progress Loans program is to enable low-income consumers to access affordable, fair and safe mainstream finance to obtain necessary items. Key features are shown in Table 1. The loans are designed to be affordable rather than a low-interest loan. The ongoing interest rate is comparable to the rates available on most personal loans. Progress Loans are designed for people on low incomes who have a Health Care or Pensioner Concession Card, have been at their current home for more than six months and are able to make regular repayments. The target market is people who are managing their limited money well and can afford a loan, but are excluded from mainstream finance.

1.3 PROGRAM DELIVERY

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.

1.4 SITUATION AFTER THREE YEARS

Table 2 provides key information about the Progress Loans program up until the end of May 2009. Almost 600 loans have been drawn down and the default rate is around one per cent, a figure which compares favourably with most mainstream lending portfolios and demonstrates that many low-income people are capable of being part of the mainstream economy and repaying loans.

TABLE 1
KEY FEATURES: PROGRESS LOANS

Loan amounts	\$500 to \$3,000
Loan term	6 months to 3 years
Eligibility	<p>Holders of Health Care or Pensioner Concession Card</p> <p>Able to make regular repayments</p> <p>Have been in current home for more than six months</p>
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

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%

2. RESEARCH OBJECTIVES AND APPROACH



This 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.

In addition, ANZ and the Brotherhood of St Laurence wanted to contribute to the body of knowledge associated with microfinance in Australia by providing a deeper understanding of this particular consumer microfinance program.

2.1 RESEARCH METHODOLOGY

The first part of the research involved analysis of the demographic data of existing Progress Loan customers to determine whether the program was reaching excluded and vulnerable people.

The second stage involved discussions with past and present Progress Loans customers. There were four group discussions (a total of 30 people) and eight face-to-face interviews. For the purpose of comparison, another eight face-to-face interviews were conducted with NILS customers. While the face-to-face interviews were designed to explore individual customer situations and experiences, the group discussions provided a broader coverage, albeit in less depth. Quotes and case studies detailed throughout this report are based on the focus groups and interviews.

The third stage included 200 structured, 10 minute telephone interviews with participants randomly selected from the Progress Loans database. The main purpose of this stage was to measure customer attitudes, experiences, and the social impact of the Progress Loans program.¹

The focus groups and interviews explored participant reasons for applying for a loan; the perceived importance of the items funded; and the application and repayment processes. Participants were asked about alternative options for funding the item purchased, such as savings, fringe lenders and NILS. They were asked to comment on the benefits in obtaining the loan and any unintended negative consequences. In addition, they were questioned about any perceived improvement in skills, knowledge and self-esteem as a result of obtaining a Progress Loan or NILS loan. Finally, they reflected on their relationship with the Brotherhood of St Laurence and ANZ, as well as their attitudes towards dealing with the mainstream banking sector.

2.2 ETHICS APPROVAL AND RESEARCH LIMITATIONS

The research approach and materials complied with Brotherhood of St Laurence ethics guidelines. Respondents in the group discussions and face-to-face interviews gave written consent before participating and received a gratuity for participating. Information collected was not attributed to individuals and all respondents had the right to withdraw from participation.

A limitation of this research is that the results are based on customers' self-assessment of their experiences and the impacts of the loans program. For example, when assessing if the program has had a positive impact on an individual's ability to manage money, it is the customer's self-assessment that is reported rather than an independent objective assessment.

¹ Statistics in this report (excluding demographics and lending volumes) are based on the telephone interviews. The final sample of 200 participants represented over half (52%) of the 383 Progress Loan customers at the time the research was conducted in September 2008.

The analysis was conducted at the 95% confidence level and the confidence interval associated with reported results is at worst $\pm 4.8\%$. This means, for example, if 50% of research participants agree with a statement, the result should be interpreted as somewhere between 45.2% and 54.8% of participants agreed with the statement.



2.3 PROFILE OF CUSTOMERS AND RESPONDENTS

Based on living arrangements, income and education levels, employment rates and levels of savings, the Progress Loans program reached people at risk of social and financial exclusion.

Table 3 shows that compared with the Australian population, Progress Loans customers were more likely to have a limited education, with two-thirds having attained only primary or secondary school education.

All received income support payments, compared with 24% of the Australian population. Some 14% were in the workforce, compared with 65% for Australians aged over 15 years. All were low income earners: over half (58%) earned less than \$750 per fortnight and a further fifth (19%) earned between \$750 and \$999 per fortnight.

Progress Loans participants were more likely to be in public housing: three-quarters rented from the government, compared with five per cent of the Australian population.

Around three quarters had little or no savings at the point of applying for a Progress Loan. Around a fifth (18%) had savings of \$100 or less, while over half (58%) had no savings at all.

Access to financial services

Respondents in this research fitted the definition of being financially excluded—that is, they had been unable to access affordable, fair and safe mainstream finance prior to taking out a Progress Loan. This was because they did not meet the lending criteria set by mainstream credit providers due to factors such as low income levels (100% received income support), a lack of assets or security, and not being in paid work (88%). They were generally aware their options were limited:

“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.”

Many respondents in the group discussions and face-to-face interviews emphasised the difficulty they would have trying to save the money required for the loan purposes. For many it would take some years to save, and for most their needs were more immediate. The lack of savings illustrated the importance of access to an affordable source of credit for low-income people:

“You can save, but in my situation I needed things straightaway. I came out of a refuge and I had nothing. I left everything. I walked out the door with a nappy bag. In my situation, I needed things straight away. [The Progress Loan] was a lifesaver to me.”

“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.”



TABLE 3: CUSTOMER AND RESPONDENT PROFILE

CHARACTERISTIC	RESEARCH SAMPLE (%)	PROGRESS LOANS CUSTOMERS+ (%)	AUSTRALIAN POPULATION (%)
Gender			
Male	34%	34%	50%
Female	66%	66%	50%
Country of birth			
Australia	63%	NA	77%
Overseas	37%	NA	23%
Age			
18 to 34	12%	16%	23%
35 to 44	21%	23%	15%
45 to 54	22%	25%	14%
55 to 64	26%	19%	11%
65+	19%	17%	13%
Living arrangements			
Renting privately	19%	24%	21%
Renting from government	75%	70%	5%
Own or purchasing a home	3%	2%	70%
Other / NA	3%	4%	4%
Income and employment			
Receive income support payments	100%	100%	24%
In workforce*	12%	14%	65%
Centrelink income type			
Parenting payment / family tax benefit	25%	27%	NA
Disability support pension	40%	37%	NA
Age pension	19%	16%	NA
Newstart	7%	11%	NA
Other	9%	9%	NA
Highest education level			
Primary / secondary school	68%	NA	49%
Non school qualification (certificate, degree, apprenticeship)	32%	NA	51%
Level of savings at application #			
No savings	54%	58%	NA
\$1 to \$99	22%	18%	NA
\$100 to \$1000	16%	16%	NA
\$1000 plus	6%	6%	NA

+ Customer database as of September 2008.

* Australian workforce data refers to persons aged over 15 years. Source for Australian population data ABS (various sources).

Savings data from two per cent of the research sample and two per cent of Progress Loans customers was not available for the purposes of analysis.

3. MAIN FINDINGS AND CONCLUSIONS



3.1 EFFECTIVENESS OF THE PROGRESS LOANS PROGRAM IN ADDRESSING KEY FINANCIAL NEEDS

The research showed that the Progress Loans program was effective in helping customers address key financial needs.

Helped provide basic needs: Loans were used to fund household, mobility and personal needs.

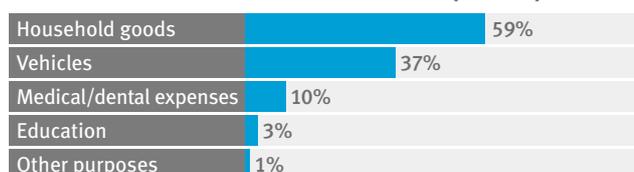
A major use of Progress Loans was to obtain basic material resources such as a fridge, freezer, washing machine, furniture, or computer. Participants commented that the acquisition of such items had a positive impact on their situation. It made life easier for many, as demonstrated by the comments below:

“These things are the items we need for everyday living like the fridge, freezer, vacuum cleaner or lounge suite. They’re basic things we need to live.”

Computers purchased with a Progress Loan were used for online shopping, education, entertainment, communication and information:

“With the computer, at least I can go places which I can’t go now physically.”

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



Another major use of Progress Loans was to fund vehicle purchases or repairs. Vehicles assisted participants with day-to-day travel for shopping, getting to medical appointments and picking up children. The research showed that vehicles facilitated access to family and friends and provided mobility for those unable to use public transport, demonstrated by quotes below. Vehicles also assisted in obtaining and maintaining employment, which is illustrated through ‘Sally’s’* case study (see case studies overleaf).

“I can’t walk 500 yards. A scooter is a necessity.”

“At the time I was living [a long way away from my family] and I just couldn’t get up to [visit] them.”

“.. just getting to hospital appointments ... had to go to [the hospital] for dialysis.”

While participants appreciated the opportunity to obtain a car, many also commented that \$3,000 was not sufficient to purchase a reliable vehicle.

As in ‘John’s’ case, some Progress Loans were used to fund medical or dental needs, including surgical procedures, medical aids and equipment, medical therapy and dental procedures.

Overall, the research showed that the program promotes social inclusion by helping customers acquire basic material resources, deal with a personal crisis (including family breakdown, loss of employment and health problems), connect and socialise with family, friends and local community, and obtain or remain in employment. The research showed that Progress Loans directly supported individuals’ own capacity to address issues arising during their lives.

* Pseudonyms have been used in case studies to protect privacy.



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."

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



3.2 CUSTOMER EXPERIENCE WITH PROGRESS LOANS

Mainly positive loan experience: The majority of participants found the loan application process easy or very easy (80%), the speed of loan approval reasonable or fast (95%) and the loan repayment process suitable (95%).

“I was very nervous about going, but [the loan officer] really puts you at ease and read through things again, the paperwork. Very good.”

“It is very thorough. I like the way they did it here, and that they checked to make sure that you can actually afford to make the repayments before they decide whether you can go further.”

“I took my forms over at 11 o’clock and I heard by 3 o’clock the same day. It was just unbelievable.”

“When I came through, they had the cheque in my hand within three days.”

Repayments easy to make: Most of the participants (89%) found making Progress Loan repayments easy or very easy. As in ‘Peter’s’ case, the focus groups and face-to-face interviews showed this was because of the affordable size of repayments, the fact that repayment amounts didn’t change, and use of direct debit or Centrepay (a deduction made directly from Centrelink income at the point of payment).

“That’s what I liked about this particular loan as well is that the repayments were fortnightly, but they were affordable so that you don’t have to go without food, or not pay that bill, or get an extension on the bill.”

“It’s really about the \$22, it was affordable. And so you’re going to get your tyres and your freezer and you knew that it was \$22 a fortnight it was costing instead of a big lump.”

Direct debit was the primary payment method offered. However, some research participants said they would prefer to use Centrepay because it was easy to manage, automatically coordinated income payments with loan repayments and avoided the risk of an overdrawn account.

PETER’S CASE STUDY

Fifty-year-old ‘Peter’ says the purchase of a car through the Progress Loan helped him to get employment.

“Freedom of movement, not relying on the trains ... made it even more worthwhile to get a car ... By car it was 15 minutes and by train it was an hour [to work]. I don’t think I would really have stuck the job out if I didn’t have the car, not this long anyway... Getting the car has also got me extra income.”

‘Peter’ appreciated a loan through a mainstream bank. He has not used credit for over 20 years, apart from regular Centrelink advances, and realised his alternatives were limited:

“I couldn’t have got a loan anywhere else. I wouldn’t have saved up the money for a car, so I probably wouldn’t have been working now ... It sort of gives you more self-esteem, knowing that I don’t have any debts or bad debts and likely to get credit ... just to know that you’re in good standing with a financial corporation.”

He has had no trouble maintaining the loan because the repayments are affordable and linked to his Centrelink payments.

“I thought it was very important, too, that the Brotherhood makes sure you can afford it before they put the application through ... They worked out the day that they took the payment out would be the same day that my pension goes in.”

‘Peter’ felt that getting the loan assisted in building his capabilities:

“I am in a better position to manage my money. I was living fortnight to fortnight but, due to the car and due to getting work, that’s helped ... I put a little of that away, so I’ve got some savings.”



High satisfaction with loan process: All respondents (100%) in the telephone survey said they were satisfied or very satisfied with the service provided by the Brotherhood of St Laurence; and almost all (96%) said they were comfortable with the loan application process.

“The Brotherhood never made me feel inferior because I was a single parent. And they never seemed to judge me because I was there to borrow money.”

“I haven’t usually been given second chances.”

Some participants suggested the process could be improved by allowing more flexibility in the draw-down of loans as cheques were not suitable for all purchases.

Overall, the research showed that the experience for the majority of Progress Loan borrowers was positive, generating high levels of customer satisfaction. Comments from customers like ‘Peter’ also suggest that the program was promoting financial inclusion by providing access to affordable, appropriate, fair, mainstream credit.

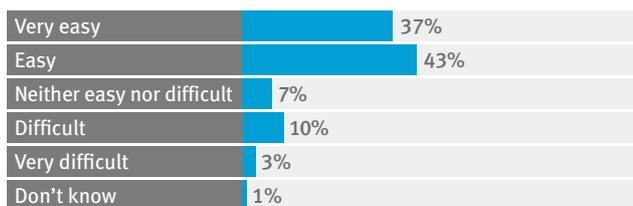
SANDRA’S CASE STUDY

‘Sandra’ is a younger person living alone in public housing. She suffers from chronic fatigue syndrome and is on a disability pension. She doesn’t have a car and uses a push bike for transport. She purchased a new washing machine which saves her time and effort and is convenient. It has improved her quality of life significantly.

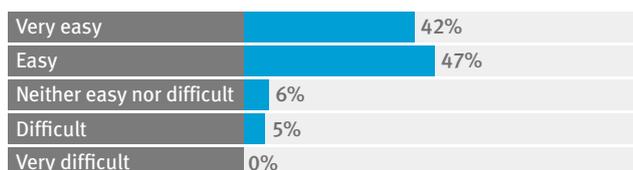
“With chronic fatigue, hand washing is just excruciating on certain days and you have got bedding and towels and everything. I was hand washing everyday and I was just exhausted. I’ve had days where I felt so sick I couldn’t do it.”

“And I haven’t got a car to get out to the laundromat and you can only take a small amount in the bike basket. And it’s quite expensive to go to the laundromat. Yes it’s out of the question”

GRAPH 2: EASE OF APPLICATION (n=200)



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





3.3 SOCIAL IMPACTS OF THE PROGRESS LOANS PROGRAM

Customer feedback suggests that the Progress Loans program is contributing to social inclusion by building capacities such as budgeting skills and financial literacy, as well as increased self-esteem and resilience.

Some positive changes in behaviours and skills: Between a quarter and half of Progress Loans customers believed they experienced a positive change in behaviours and skills since taking out their Progress 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%).

“It is learning to be responsible, I think a little bit more responsible when it comes to money.”

“I understand more now because up until a year or two ago, I have never had a loan.”

Some cost efficiencies: Three-quarters of the sample (75%) believed their Progress Loan helped save money or was a cheaper way of doing things, as was demonstrated by ‘Sandra’s’ case.

These included saving money on the loan interest (58%), on public transport costs (22%), by buying in bulk or on special (17%), by replacing services like laundromats (7%), and by replacing leased or rented goods (6%).

“I had [another loan] and the interest compared to that, it saved me about 13%.”

“Now I can buy bulk, whereas before I couldn’t because then I had a little freezer.”

Connecting to mainstream finance: The Progress Loans program promoted financial inclusion by linking people on low-incomes, who might not have been able to access safe and affordable credit, to a mainstream credit provider. Research participants placed a high value on dealing with one of the big four mainstream banks.

The research showed that almost all participants had pride in their achievement after paying off their loan (98%) and placed value on establishing a good track record with a major bank (97%).

In addition, some expressed an increased confidence to deal with a bank after having a Progress Loan (49%), and most said they were more comfortable with ANZ (88%) since taking out their loan.

Improved resilience: Like ‘Margaret’, many research participants 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 a better ability to deal with an unexpected expense (31%).

“[The Progress Loan] gives me independence; I don’t have to rely on anybody.”

“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. It just takes that all away and it makes you feel good about yourself again. Just simple things you just can’t afford on a pension on your own.”

“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.”



MARGARET'S CASE STUDY

'Margaret' is in her late fifties and rents from the Office of Housing. The Progress Loan has helped her to purchase 'nice things' for the first time in her life. She has had three loans with the Brotherhood over a period of years. She has used past loans to purchase necessities such as a washing machine, a lounge suite and a refrigerator.

"When I didn't have the washing machine I'd wash my clothes by hand. So I think that was a big benefit to me, now I just put them in the machine."

Her latest Progress Loan was used to purchase an air conditioner, a BBQ and a television. These items have assisted her to maintain contact with friends.

"I've never had nice things, you know, I'm 55 now and it's the first time in my life I've had nice things. I couldn't afford them otherwise, because I'm only on the disability pension. I know material things aren't that important in life, but it is nice to have them sometimes. And everything I've got I'm really looking after."

"[I bought the things] for my enjoyment, because in the summer I can have friends around. I can say to them 'Would you like to stay for dinner?' and we would barbecue a sausage or something."

Margaret left school at 13 and had never had any form of credit in her life prior to loans through the Brotherhood. The loans have helped to build her confidence.

"I know that I've got more confidence with myself and stuff like that. It's made my self-esteem a lot better ... I can pay things off and I'm more capable within myself to do things now."

3.4 KEY PROGRAM FEATURES FOR LOW-INCOME PEOPLE

The research showed that a number of features make the Progress Loans program suitable for low-income consumers. They include:

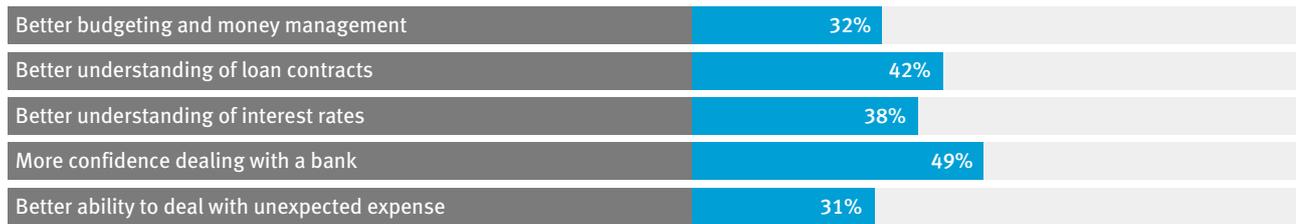
- a sensitive, respectful application process that can provide intensive assistance if required
- an affordable repayment rate that does not change over the term of the loan
- an assessment process that works with the loan applicant to establish realistic and affordable repayment rates
- an automatic repayment system that is coordinated with the timing of income streams, through direct debit and Centrepay
- a positive relationship with a major mainstream bank.

3.5 CUSTOMER EXPERIENCE WITH THE NILS PROGRAM

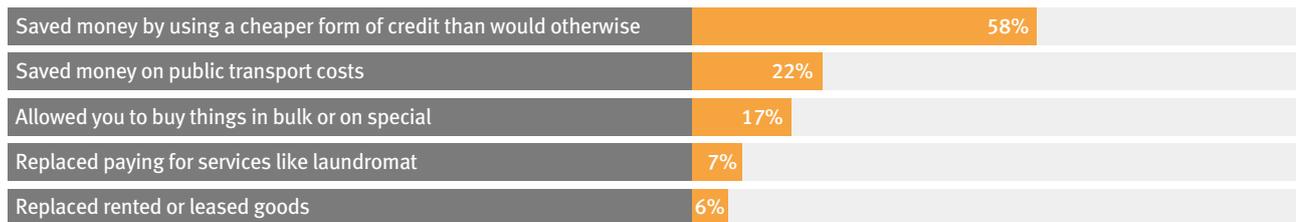
The Brotherhood of St Laurence also delivers the No Interest Loans Scheme (NILS[®]), a program originally developed by Good Shepherd Youth & Family Service. A NILS loan may be offered to applicants who do not qualify for the Progress Loan, but are still able to demonstrate a capacity and willingness to repay a loan. The successful completion of a NILS loan might be evidence that an applicant is able to pay off a loan from a mainstream provider. Eight face-to-face interviews were conducted with NILS clients to explore their perceptions of the scheme and whether they understood the differences between NILS and Progress Loans. NILS was also discussed in focus groups and interviews with Progress Loans research participants. Topics included awareness and perceptions of the differences between the loans, attitudes to paying interest and attitudes to dealing with a bank. Due to the small NILS sample size, these results need to be treated with caution.



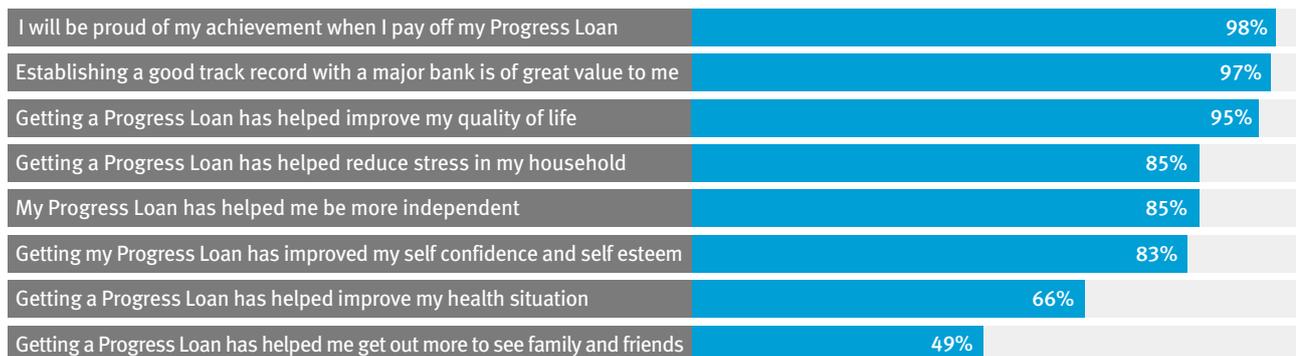
GRAPH 4: POSITIVE CHANGES IN BEHAVIOUR OR SKILLS (n=200)



GRAPH 5: NATURE OF COST EFFICIENCIES (n=200)



GRAPH 6: PERCENTAGE OF CUSTOMERS WHO AGREE OR STRONGLY AGREE WITH EACH STATEMENT (n=200)





Similar purposes and experiences

Overall, both customer groups had similar loan purposes, gained similar benefits from the loan, reported similar social impacts and had similar customer experiences.

Most Progress Loans customers in the group discussions and face-to-face interviews were not aware of NILS and knew little about it. Most interviewed NILS clients knew little about Progress Loans (although half recognised the name). Most of these participants did not see a relationship between these loans.

Like 'Judy', most of the NILS and Progress Loan participants believed that if they paid off their loan they would have a positive credit rating or positive track record which in turn could result in access to future loans.

Attitudes to interest

There were varying attitudes to paying interest:

"Well, you'd rather not pay interest, but if you have to you have to"

"Yes, but I mean over a period of 2½, 3 years, you don't notice it each week whenever you pay it. It's an insignificant amount when you divide the total interest by the length."

"I didn't really know what the interest rate was. Yes it's all written in the agreement. I just sign. It doesn't bother me."

Discussions between respondents showed that some Progress Loan customers would prefer not to pay interest if they didn't have to while others didn't mind. Some thought the Progress Loan interest rate was high while others thought it was reasonable for an unsecured loan. Many customers commented that the affordability – the fortnightly repayment schedule, was more important than the interest rate.

JUDY'S CASE STUDY

'Judy' was not eligible for a Progress Loan because she and her husband had recently gone bankrupt. The Brotherhood offered Judy a NILS loan because she could afford repayments and was up to date with her bills and rent for the Office of Housing. 'Judy' recognised her options were limited and appreciated the opportunity to obtain a loan.

"From past experience when we've got ourselves into financial trouble and we couldn't get help, it could make you feel very down and miserable. And unfortunately we had to go about it an awful way through the bankruptcy to get out of it and finished with that; it's history. And this way it's good to know that someone will help us financially and that we can afford it too."

'Judy's' husband is ill and she is his full time carer. The NILS loan was used to purchase a new refrigerator. The old refrigerator was 30 years old, the motor didn't work properly and the door didn't close properly.

"[The fridge was] very important because I have got to keep insulin in the fridge too, besides our food."

Purchasing the fridge created cost efficiencies.

"The motor was not running properly, the door, the seals weren't properly sealed and I suppose I was wasting more electricity that way."

In the future, she hopes to obtain a Progress Loan.

"Once this loan with NILS is finished I will ask about the Progress Loan."

4. CONCLUSIONS



The Progress Loans program effectively addresses the key financial needs of people on low incomes because it enables people to access credit to pay for basic household items. It also reduces the vulnerability of some low-income people by enhancing their ability to deal with unexpected expenses.

In addition, the Progress Loans program provides a positive customer experience for most and produces high levels of customer satisfaction. It generates a range of social benefits by providing cost efficiencies, fostering changes in behaviours and skills, and increasing self-confidence, independence and self-esteem.

The Progress Loans program also helps address financial exclusion by linking people on low incomes to the mainstream banking system and providing safe and affordable credit.

The program promotes social inclusion by helping customers deal with a personal crisis (including family breakdown, loss of employment and health problems); connect with family, friends and the local community; and obtain or remain in employment. The Progress Loans program strengthens individuals' capacity to address the issues arising in their lives.

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.

