

Interest free loans could prevent homelessness and save councils millions, according to a new study

June 17 2019

A homeless prevention interest free loan scheme in Lewisham, which has helped over 300 families escape eviction and saved the council over £1 million, could be replicated across the UK a new study suggests.

In 2018, a study by Shelter recorded 320,000 people as homeless in Britain making it a major issue in current society.

However, a new study published in the journal *Public Money & Management* has shown how a grant providing 0% interest loans to families, at high risk of eviction who would otherwise be unable to access finance or [credit](#), could play an important role in preventing further additions to the homeless crisis in the UK.

The study details how in 2010 Lewisham Council partnered with Lewisham Plus Credit Union—a community-based credit [union](#) catering for people living or working in Lewisham and Bromley—to introduce the £85,000 grant scheme in a bid to help these [vulnerable people](#).

The study—funded by The British Academy—found that to-date the scheme has not only saved over 300 families from eviction, but also saved the authority £1million in costs it would have had to pay in its previous provisions to help these people—including providing temporary accommodation.

"Many of the most vulnerable residents are unable to secure loans from high street banks—who typically only lend to financially-secure, low-risk consumers. This means that tenants struggling to pay rent are often forced to turn to commercial payday lenders, who exploit the financially excluded by offering short-term loans at extremely high interest rates," says Bill Lee, a professor at Sheffield University Management School, who lead the study.

According to Professor Lee one of the biggest benefits of the scheme and using credit unions is that it helps tackle financial and [social exclusion](#). Financial exclusion is when people are denied access to essential financial services that most of us take for granted, such as a bank account or credit card. Social exclusion on the other hand means suffering deprivation by not having access to a range of provisions—such as a job, money, housing, education, health services—that most other people enjoy.

"While the scheme protected the recipients from homelessness by helping them to address their short-term financial problems, it also opened up loans and savings facilities to them, helping them to save, and establish a credit record," says Professor Lee.

The findings suggest that credit unions could play an important role in preventing further additions to the homeless crisis in the UK, while saving local authorities money in the process.

"Schemes like this could be rolled out across the country as many credit unions have high levels of skills in helping vulnerable people manage their very limited finances," says Professor Lee. "However, such schemes need to be underwritten by local authorities or central government, so that credit unions do not carry the burden of loss if people on low incomes are not able to repay the loans."

According to Shelter's latest findings, Lewisham is already in 12th in the UK for the amount of homeless people with one in 49 either in temporary accommodation or sleeping rough.

"The London borough of Lewisham is in the top 20% most deprived local authorities in England, with one in four people earning less than the Living Wage," says Professor Lee.

This is a figure which would have likely been far higher, had it not been for this novel system, which has also benefitted housing associations and landlords financially—through receiving rent that would otherwise not have been paid and saving on re-letting expenses, possible repair costs and a void period in rental income before their property could be re-let.

Professor Lee believes such a scheme could be beneficial if rolled out by other credit unions further afield.

"The homeless prevention loans suggest a way forward for other local authorities to work with social housing providers. Social housing providers in Britain are expected to use business management techniques to sustain their own financial position and do not appear to be in a position to establish independent means to enhance the financial security of their tenants.

"Given that there is less legislative pressure on banks to provide basic banking facilities in Britain than is the case in other developed countries the findings reported here indicate that credit unions are best placed to administer such loans."

More information: Bill Lee et al, A case study of the financial benefits of a credit union's homeless prevention scheme, *Public Money & Management* (2019). [DOI: 10.1080/09540962.2019.1621050](https://doi.org/10.1080/09540962.2019.1621050)

Provided by Taylor & Francis

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