
An assessment of the financial education needs of young people living in Foyer accommodation

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MyBnk
My Money, our future.

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Introduction

“These kids (Foyer) have ideas, but no one is willing to believe in them, give them a stepping stone. No one gives them a chance because they think you’ll take the money and run off” Resident, Redbridge Foyer

This report summarises the findings and subsequent recommendations produced by the social research conducted at the Draper City and Redbridge Foyers. The majority of the research was conducted at the Draper City Foyer.

Foyers are integrated learning and accommodation centres providing safe and secure housing, support and training for young people aged 16 - 25.

This research was undertaken in order to investigate the financial needs and enterprise potential, of young homeless people residing at the Foyer, in order to explore the feasibility of a MyBnk branch in a Foyer. In addition to this, the research explored how and to what extent residents are affected by financial exclusion in order to add to existing knowledge on the subject in the UK and react to their experiences.

The social research methods used were primarily qualitative and involved focus groups, in-depth semi-structured interviews and structured interviews. The research aimed to be as participatory as possible, raising awareness in the Foyer residents of their own financial needs and increasing their basic knowledge of enterprise skills and opportunities open to them. In addition, three of the Draper City Foyer residents were taken on as Assistant Researchers and conducted structured interviews with their peers. They were trained in interview techniques, provided with the necessary equipment and rewarded with shopping vouchers.

Summary of Main Findings and Recommendations

This section gives a brief summary of the main recommendations and findings resulting from the research. In order to fulfil many of the recommendations below it is proposed that MyBnk partner with a bank or microfinance institution. This would allow MyBnk to fulfil all the financial legalities without going through the required lengthy processes; help with funding the loans and taking in savings; provide the banking training for Foyer MyBnk staff; and alleviate security and trust issues. Partnering with a bank/microfinance institutions may also increase the credibility of the product for the Foyer residents.

2.1 Savings

It is recommended that MyBnk design a Savings Account that specifically caters to facilitating the Foyer residents move to independent living. This means creating a facility that allows for small amounts to be deposited frequently; that offers incentives that facilitate the transition to independent living; and that places restrictions on the resident taking out money before the transition.

It was suggested that residents would prefer incentives that would help them once they moved out buy essentials, instead of interest. Suggestions included shopping and furniture vouchers. However, not allowing for interest may deter a substantial number of residents from opening an account and therefore it is recommended to give residents the choice between incentives and interest.

2.2 Loans/ Enterprise

It is recommended from findings that MyBnk provide loans for residents to set up small enterprises that would last for a relatively short period of time called 'Enterprise Loans'. These would be used for small enterprises, such as providing snacks to other Foyer residents, which would help the resident understand and learn about enterprise, bring in a small income and increase their self belief. After success with a 'micro-enterprise', residents would be recommended onto other financial institutions if they so wish, for further help in setting up a business.

MyBnk could also provide loans that help tide residents over when they are short of cash (Emergency Cash Loans); these would be small loans (£1-50) for a short period of time. This would help residents cover shortages for food and essentials without having to resort to less orthodox means. However it should be noted that due to residents' financial situations it is improbable that any financial service providers will fund these loans and funding would have to come from alternate sources.

There are advantages to not putting interest on the loans as this would lessen the financial burden for the residents and simplify the running of the bank. However, it would be essential, if interest rates were not used to ensure that residents understand and learn that there is a cost to borrowing money. This could be done by borrowers attending compulsory

financial capability workshops that teach interest rates and act as the cost of borrowing money. If MyBnk partners with another financial service provider it is almost certain that interest rates will be used.

Residents and staff alike are wary of residents taking out loans due to the precarious financial and personal position they are in. MyBnk should set up a loan system that mitigates their worry as much as possible by loaning small amounts, loaning specifically to aid the transition to independent living, loaning for short periods; loaning with a grant/funding organizations underwriting the loans; providing comprehensive support and training; and potentially only lending 'Enterprise Loans' to peer groups.

2.3 MyBnk in the Foyer

The Foyer MyBnk has to have a high level of professional credibility in order to be valued by the residents. This includes formal training and recognition for the Foyer MyBnk staff with the possibility of eventually providing services to customers outside the Foyer.

It is important that there are systems in place which allow the residents to trust the Foyer MyBnk staff as this is a very important issue to all the residents. It is recommended that the residents running the bank complete a comprehensive training course and are put on a probation period when they start working at the bank.

Residents are wary of their business failing and being criticised as failures. MyBnk should try and mitigate this possibility as much as possible to make the bank more attractive by including a comprehensive screening process, providing supportive training and introducing certain safety nets.

MyBnk would need to work hard to overcome the lethargy and disengagement of Foyer residents. This would involve tailoring the product as much as possible to residents' needs and ensuring the marketing for the bank is thorough and appealing to its audience.

Foyer Location & Services

3.1 Foyer Locations

There are 14 Foyers in London. This research was conducted mainly at the Draper City Foyer although some interviews were also conducted at the Redbridge Foyer.

The Draper City Foyer (named after the drapers who once resided in the area) is based in Bethnal Green on the edge of Weavers Field in an old school building. It is about a 10 minute walk away from the Bethnal Green tube and about a 25 minute walk from the MyBnk offices in Aldgate. There are flats for 41 residents, (one of the smaller Foyers), with no accommodation for young parents.

The Draper City Foyer, although possessing relatively spacious flats, does not have spare rooms available for workshops. Workshops are held in rooms rented from the Weavers Trust which operates in the same building. Other options for space include the portacabin and a space upstairs where there are computers and which is more of a corridor in between 2 areas. This poses a problem for finding a suitable location for a MyBnk branch and where it would operate. This would have to be resolved in order for the Foyer MyBnk to be successful.

The Redbridge Foyer is in Ilford around a 10-15 minute walk away from the train station. There are flats for 70 residents including young parents and rooms available for workshops.

3.2 Foyer Services

The maximum residency period is 2 years. Residents are referred to the Draper City Foyer from the First Step Assessment Centre in Newham which decides whether the Foyer is the right place for the individual. Residents are referred to the Redbridge Foyer from the Housing Advice Centre/Homeless Unit in Ilford. In Draper City, the residents start in shared flats and then if they adhere to the Foyer procedures (attending life skill classes etc) they can move into their own flats. Most of them receive housing benefits to cover their rent (which is approximately £150 a week) and only have to pay a service charge of £6 a week. If they are signing on for benefits they receive approximately £46 a week to live off which many find very hard.

All residents have a Key worker who they see once a month (or more frequently if the need exists) who they discuss how their everyday life is going with. Key workers are likely to be integral in ensuring MyBnk repayments are made.

There are different friendship groups within the Foyer and they do not tend to mix or trust each other. This was a defining feature of both the Foyers in the London area that were visited.

Foyer Resident Characteristics

4.1 Draper City Foyer Residents

The age of the residents tends to fall towards the younger bracket of 16-25 with most residents aged around 19 years old (this tends to be the same for most Foyers where those with the most need are given priority and tend to be the youngest). Residents come from a diverse ethnic background and are relatively equally split between male and female. Here are some of the other findings and accompanying recommendations that came out of the focus groups and interviews at the Draper City Foyer.

- Many residents have difficulty paying their rent even though many receive housing benefit. MyBnk could set up savings accounts to help pay for rent and other major items as well as for the transition to independent living.
- The most popular spare time activity was listening to music. This should be noted when researching possible incentives for saving and prizes. iTunes vouchers could be a possibility.
- The most popular musician amongst workshop participants was R Kelly and the favourite type of music amongst participants was R&B; also mentioned were hip hop and reggae.
- Many residents saw studying as the main impediment to their dream job. MyBnk could help encourage and support residents to study by providing budgeting and money advice for those in full time study.
- The most frequently cited dreams were owning a home and attending further education.
- The favourite sports of residents questioned were basketball and football.
- The biggest problems in residents' lives included not being able to get a job, lack of money and not owning a home. MyBnk could help residents get jobs by providing them with essential work experience and job references for running MyBnk.
- The favourite TV show amongst participants was Eastenders.
- The majority would most like to be constantly happy rather than rich or good-looking.
- There exists a substantial amount of distrust amongst residents and there are different friendship circles which do not mix. One participant commented, '*people don't like talking to each other here*'. MyBnk would need to address this issue when researching and developing the bank.
- From the peer questionnaires, 70% of respondents find it easiest to learn new information face to face. This percentage was even higher for those questioned during the focus groups and at the Redbridge Foyer.
- From the peer questionnaires, 50% of residents like to chat and share ideas online, 50% do not.
- Residents see key workers only about once a month with each key worker having around 8 residents each.
- Many of the residents are unable to cook basics and spend a lot of their money on takeaways.
- A number of the residents are into drugs.
- Staff commented that a number of residents lack motivation due to a lack of structure in their lives.

- The biggest shock for residents is when they get a job and no longer receive benefits and have to pay all the bills. Again MyBnk could provide budgeting and financial advice specifically for this period.
- Residents have to pay £6 a week service charge, the rest of their rent is usually paid by housing benefits.
- Young people come to the Foyer through specific referral agencies. A number have been street homeless, a number have been sofa surfing, a number left home due to the breakdown of family relationships.
- The maximum period of stay at Foyers is 2 years, therefore it is vital to take into account how long residents have left at the Foyer when they are opening bank accounts or training as Foyer MyBnk staff.

4.2 Redbridge Foyer Residents

The research with the Redbridge Foyer residents did not enquire about general characteristics and therefore there is no information on this subject.

Financial Capability Findings and Recommendations

This section relates the findings on Draper City Foyer residents' levels of financial capability and the concomitant recommendations.

- Generally the residents possess very varied levels of financial literacy with some residents possessing a high level of financial capability. MyBnk would need to ensure it caters for these diverse levels of financial capability.
- The basic literacy and numeracy skills that are essential for financial literacy do not exist for all residents. MyBnk would need to be able to cater for residents who do not have these skills. This would probably involve ensuring one of the Foyer MyBnk staff is always available to go through things face to face with clients.
- The majority know the basics of setting up a bank account due to the introduction of Benefits Direct.
- The majority questioned in the focus group seem to be unsure of what interest rates actually are.
- Some residents questioned have very good budgeting skills and manage to last on £46 a week.
- All staff believe money management skills training are needed and essential for Foyer residents.
- It was mentioned a number of times that residents face the biggest shock when they actually get a job and move off benefits. It is recommended to specifically address this in the financial literacy workshops, by creating budgets for this situation and training the Foyer MyBnk staff to provide advice for this situation.
- It is important that all residents joining MyBnk learn basic levels of financial capability. This should include learning about interest rates and basic banking.

Financial Exclusion Findings and Recommendations

This section relates our findings on how and to what extent residents experience financial exclusion. The definition of financial exclusion that was used in the research was taken from the FSA Literature and Research Review on financial exclusion titled 'In or Out' and included the following 6 dimensions:

- Geographical exclusion: *the restriction of access due to a lack of appropriate financial service providers in certain areas.*
- Access exclusion: *the restriction of access through the processes of risk assessment.*
- Condition exclusion: *where the conditions attached to financial products make them inappropriate for the needs of some people.*
- Price exclusion: *where some people only gain access to financial products at prices they cannot afford.*
- Marketing exclusion: *whereby some people are effectively excluded as marketing and sales are not targeted at them.*
- Self-Exclusion: *people decide not to apply for a financial product because they believe they would be refused due to their economic status.*

The research focused on these 6 areas when exploring how and to what extent residents experienced financial exclusion. The following findings also include recommendations on how MyBnk could respond to these experiences when designing the MyBnk for the Foyer.

The majority of residents did own bank accounts. This is in part due to the introduction of Benefits Direct which has meant that benefits are received directly into bank accounts. According to one of the members of staff this has also changed residents' attitudes towards banks as they have become more positive since Benefits Direct. One resident who did not have a bank account had had his closed because of charges which he incurred and could not pay, '*It was something silly. £20 of charges went up to something like £108. It made me lose all my faith in banks. The way it goes up and up is just ridiculous*' (Resident, Redbridge Foyer). His mum had opened the account for him when he was 13 years old and the debt ended up being passed onto debt collectors

Only a minority of residents had their own savings accounts and only an even smaller minority were actually using them to save. A large number of residents questioned commented on how hard they find it to save. MyBnk could help this situation by making saving more convenient and relevant for Foyer residents. All the residents agreed that it was better to have a bank account than not, mainly for security reasons

6.1 Geographical Exclusion

The large majority of residents thought it important that their bank have a branch near where they lived including 90% of those questioned by their peers. All questioned did have a branch near where they lived.

6.2 Access Exclusion

The majority of residents questioned had not experienced access exclusion to the best of their knowledge when attempting to open a bank account. Two of the residents however did mention that they were not allowed to have debit cards, only cash cards, which meant that they had to carry around much more cash on their person than they desired. Another resident had been declined a loan.

6.3 Condition Exclusion

A small minority of interviewed residents questioned during the focus groups and at Redbridge experienced problems with opening a bank account, primarily due to documentation issues. These issues were always resolved either through support from the Foyer staff or by trying a different bank. 70% of those questioned in the peer questionnaires had had problems opening a bank account due to not having the required identification documents and/or proof of residency.

Staff confirmed that the main problem for residents accessing financial services is not having the appropriate identification and proof of address to open a bank account.

6.4 Price Exclusion

None of the residents had been unable to access a financial product due to costs. However, a few mentioned costs on their accounts after they had been opened that they were unable to afford. They had incurred these costs by going into overdraft without authorisation. One resident (as mentioned above) in fact eventually lost his bank account due to these charges which accumulated with time and which he could not pay. Another resident was given a £38 charge for going £3 into her overdraft by mistake which left her in tears. The Foyer staff were able to resolve this problem for her.

6.5 Marketing Exclusion

All those questioned believed banks are targeting them as customers as they believed banks are happy to acquire any new customers. A number mentioned receiving credit card application forms at the Foyer. However, results from the peer questionnaires found that only a small minority (30%) believe that banks actually cater to their specific financial needs. This indicates that residents do not feel that banks are targeting them when it comes to their actual products but would need to be researched further to confirm. MyBnk could design a financial product that would specifically cater to the residents' unique needs.

6.6 Self-Exclusion

Nearly all residents questioned in the Draper City focus groups believed banks want them as customers as they believed banks are happy to have any new customers. When asked if they thought banks saw them as risky customers most had not thought of it and did not consider that they did. One resident commented that he felt bank staff looked at him differently because of his background but the majority of the group did not hold this belief. One of the Redbridge residents noted that he could not take out a loan. He believed, *'they have this stereotype of a person. But when you go in and present a business idea, they will look at you and think, probably cos of your social background that you're not really worth putting money in cos you're not earning any income and we don't think your idea is good enough'*, (Resident, Redbridge Foyer). Another male indicated a similar belief commenting *'I'd want this bank to look at me as a business person, not as a young kid, or how society look at us, as troublesome, lost and unruly'*, (Resident, Redbridge Foyer). MyBnk could set up a financial service where participants would not need to worry about being looked at differently because it would cater specifically to Foyer residents.

Financial Needs and Reactions

This section relates the financial needs as revealed by the residents and their reactions to a MyBnk located in the Foyer.

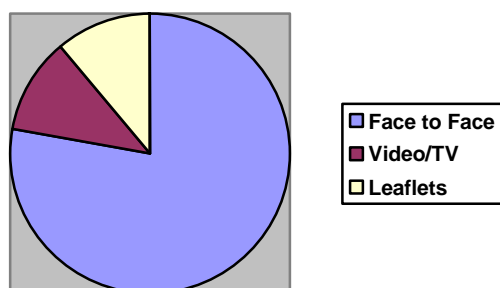
7.1 Financial Needs

In terms of savings nearly all residents recognized the importance of saving and wished to save but nearly all found this hard to do so. The findings and recommendations on savings are elaborated further in Section 8.0.

In terms of loans and enterprises, many residents expressed a need for small loans to tide them over when they are short of cash or for larger loans to help them get through fulltime studying. Views on loans for small enterprises were more varied and are elaborated on in Section 9.0.

In the peer questionnaires half of the respondents described their financial situation as 'poor' with the other half describing their situation as 'fine' or 'ok'. Many recognized the importance of being able to manage their own personal finances successfully but lacked the knowledge or motivation to do so. 30% of participants felt that banks did not cater specifically to their financial needs. Part of this is due to the fact that some residents could not obtain debit cards or take out loans. One Redbridge resident noted that he would *'like to see a bank that'll help you advance yourself and won't put restrictions on advancing yourself'* (Resident, Redbridge Foyer). He believed his current bank did not support him or his local community. A few residents also commented on the charges that banks levy with one noting *'when you're behind you can never actually catch up'* (Resident, Draper City Foyer). One female noted when discussing budgeting and saving that *'I am speaking on behalf of a lot of residents that get very stressed over money'* (Resident, Redbridge Foyer). Money issues featured as a significant stress issue for many of the residents.

In terms of specific financials needs excluding financial products, residents agreed that they need financial information and advice that is colourful, exciting and *'tells things straight up'* (Resident, Draper City Foyer). However, if possible nearly all would prefer information face to face (see pie chart below). The majority also expressed a need for budgeting and money management skills training, with 80% of respondents in the questionnaire also expressing an interest in a workshop on how to shop for a bank.



7.2 Reactions to a MyBnk in the Foyer

The general reaction to a MyBnk in the Foyer was positive with most residents citing convenience as the main reason why they would like a MyBnk in their Foyer. Other reasons included the possibility of taking out loans and the belief that a bank in the Foyer would cater better to their needs. 63% of Redbridge residents would like to see a MyBnk in their Foyer, with 37% unsure and none commenting that they would definitely not like a bank. Residents thought that it would be a good idea for a number of reasons including because *'it would be convenient and you could save frequently'* (Resident, Draper City Foyer), because *'they don't have to travel far'* (Resident, Draper City Foyer) and because *'there's quite a few people at the Foyer who don't know how to manage their money and a bank at the Foyer would give the residents the opportunity to learn how to do so'* (Resident, Redbridge Foyer). One resident also commented that a bank at the Foyer would help him set targets, *'having one of these banks would definitely benefit me because it would encourage me to put money in a regular basis and I could see myself setting goals'* (Resident, Draper City Foyer). Many of them felt that a bank at the Foyer would be convenient encouraging them to save, and that the loans it would provide would be very useful with one commenting *'when will you guys set up this bank? I would love it'* (Resident, Redbridge Foyer).

In the peer questionnaires residents, 40% liked the idea of a MyBnk in their Foyer, 30% said it depends on how it is run and 20% did not want a MyBnk (10% did not answer). In the focus groups residents were much more positive towards the idea of a MyBnk in their Foyer, probably due to the fact that they had discussed many different possible aspects of it which had greatly motivated them.

All staff questioned believe setting up a bank at the Foyer would be a positive experience particularly as it will educate the residents in money management and personal skills; allow them easier access to financial services; and give them more confidence in banks

Other reactions and subsequent recommendations to more specific details of a MyBnk in the Foyer include:

- Some residents held the belief that it should be a young persons' bank and not just a Foyer bank as the Foyer is not taken seriously, particularly by its own residents. They suggested that it would be a good idea to involve young people from outside the Foyer. It would probably be a good idea not to include the word Foyer in the name as it does not seem to be associated with positive connotations.
- Participants believe it would be hard to get residents to join the bank as there is no motivation amongst residents (reiterated by staff interviews). It would be very important for MyBnk to overcome the lethargy and disengagement that exists in the Foyer. This would involve creating a product that caters specifically to the residents' needs and producing appealing marketing material.
- Safety and security issues are very important to the residents. They do not feel the money would be safe on the Foyer property and they would be wary of trusting the Foyer MyBnk staff themselves. MyBnk should ensure that the money is transferred and kept somewhere safe and in case of loss/ theft that it is insured.
- There is a general consensus that MyBnk should be open everyday. Easy access is important. MyBnk should aim for as frequent opening times as possible.
- An online component may not be that popular with residents as only 50% of those questioned in peer questionnaires and 30% of those at Redbridge access the internet frequently and/or like to chat online.

In general, individual residents were also receptive to running the MyBnk in the Foyer themselves. 100% of those questioned from the Redbridge Foyer and 60% of those questioned in the peer questionnaires said yes they were interested in running it. They commented that this would be a positive experience because *'it would get residents involved in it thinking that if they can do this, they can go out and do anything'* (Resident, Draper City Foyer), and because *'you'll be giving people experience and it would be a chance to bring residents together'* (Resident, Redbridge Foyer). It was also noted that many residents do not have that much to do in the Foyer and this could be a positive experience keeping them actively busy in the Foyer. The main concern raised with residents running it was one of security and trust. In addition:

- In the peer questionnaire, 60% are happy with a bank run by their peers, 30% said no as they would not trust them or like to talk to them about their personal finances.
- In the peer questionnaire, 60% of participants would prefer to talk to bank staff than their peers about financial advice. 30% would like to talk to peers. It may be that the Foyer MyBnk staff are not in a situation to provide substantial financial advice and this may have to be provided through some other means.
- MyBnkers would have to be properly trained, preferably with some recognized qualification, and probably vetted for trustworthiness. The issue of trust came up the most when residents were asked what they would not like about a bank run by their peers. MyBnk would have to ensure that the Foyer MyBnk staff came from different friendship circles, as it would not work if they all came from one group.
- Payment to Foyer MyBnk staff would ensure more interest and engagement. This can be a minimal amount as long as MyBnk emphasizes the work experience that they are gaining.

Findings & Recommendations for Savings

As noted before nearly all the residents questioned in the Draper City and Redbridge Foyer believed it is important to save but find it hard to do so. A number commented that they would be able to get through the Foyer system quicker and move into their own flats sooner if they could save more.

A general consensus emerged from the research that a savings account that catered specifically for Foyer residents' move to independence and located on the premises would be popular. In the peer questionnaires 80% felt that it would be useful and encourage them to save if they had a bank on the premises. Nearly all (100% at Redbridge and 80% at Draper City) said that they would prefer restrictions on withdrawals to help them save with the majority wishing to withdraw their money only at the end of their time at the Foyer. They would then have a lump sum of money to help them make their move and buy some of the essentials needed when moving into a new home. It also emerged that residents believed the idea of receiving other incentives instead of interest would be appealing; these included incentives such as supermarket vouchers and furniture vouchers. However, most would like to have the choice between interest and other incentives.

The average amount Foyer residents believed they could save each week if a bank was set up at the Foyer was £34.50 per week, ranging from £25 to £50.

Findings and Recommendations for Loans and Enterprise

The majority of the residents were interested in personal loans to help them through full-time studying and for periods when there is no cash for essentials such as food. In particular if loans had no interest and could help clear rent arrears it *'would relieve all our minds of stress. That would give us the opportunity to move through the Foyer program with less debt, fewer worries and it would be faster too'*, (Resident, Redbridge Foyer).

MyBnk could set up 'Emergency Cash Loans' for these circumstances but it is improbable that MyBnk would be able to get the funds from financial service providers for these loans due to residents' precarious financial situations and would need to research alternative funding sources.

Many of the interviewees have ambitions to make careers for themselves or run their own businesses. 60% of respondents from the peer questionnaires would like to set up their own business. 70% believe they have lots of good ideas. However many of the residents are unsure of their own abilities or how seriously 'the world' will take them. *'These kids (Foyer) have ideas, but no one is willing to believe in them, give them a stepping stone. No one gives them a chance because they think you'll take the money and run off'*, (Resident, Redbridge Foyer).

70% of participants questioned in the peer interviews admitted they were afraid or did not know how to set up a business. Many in the focus group also stated that they did not possess the knowledge to set up a business and would not know where to start. A number also mentioned their fear of criticism and failure and there was a general wariness of debt. MyBnk would need to ensure that it had safety nets in place in case of business failure and that it had processes in place to allay residents' fear of failure and criticism.

The word 'business' also tended to scare a number of residents off as they associate it with paperwork and accounts; to run a business they think *'you have to be suited and booted'* (Resident, Redbridge Foyer). Other issues include the fact that a significant number would borrow money from friends or family but not from banks, and 70% of respondents to peer questionnaires would also be worried about taking out a loan due to their current financial situation. This was reiterated by staff who were reluctant for residents to receive loans whilst residents at the Foyer. Staff believed they need to sort out their lives first before setting up businesses with one Deputy Manager commenting *'I would not encourage residents to get loans now'*, (Draper City Foyer).

It would be very important for MyBnk to address all these issues. This could be done by ensuring loans are relatively small; providing comprehensive support and training; marketing the loans for small enterprise activities rather than the negatively associated 'business' activities; finding a grant organization to underwrite the loans: and providing safety nets for certain circumstances. It was also noted whilst at the Foyers, that unlike schools, there are no small enterprises on the premises, providing snacks or services etc that could be taken advantage of. A few of them did comment after initial negative

reactions, that if they received enough support and training, and if the loan was not too large they would be interested in setting up their own business.

A few of the residents had been involved in different businesses before, for example one doing hairdressing for other residents and one helping his mum run a charity. 70% of participants in the peer interviews commented that they were definitely interested in setting up a charity or organization that helps others at some point.

The amount that most participants feel comfortable with taking out is around £100 although answers ranged from 1 penny to £2000. It is recommended to give out loans from £25 to £250 as most participants were not comfortable with taking out loans over this amount.

Extended Research

This section will further research important areas that have come up during the field research and reporting. This includes researching the best ways to ensure repayment without residents having to face serious debt consequences; looking at potential microfinance institutions who MyBnk can refer residents on to; looking at whether we should use interest rates and if not which incentives; and addressing the issue of security and trust in training the MyBnkers and ensuring all deposits are safe.

10.1 Ensuring Repayment

Feedback from staff and residents emphasized that residents will not pay back loans if there are no penalties in place. Loans cannot be given out on trust alone. Researching different non-payment choices have led to the following options:

- Community work in case of non repayment. Could possibly work with local community group or Local Council to do this but will probably not have the legal right to enforce the community work.
- Collaborating with the Foyer to hand out visitor bans, delayed transition to single flat, increased meetings with Key workers to discuss repayment options etc.
- Giving residents a bad credit rating on the official credit rating lists. This would involve a lot of work with the credit rating agencies and would place our residents in a situation that in essence MyBnk is trying to help them out of. This may be counter-productive to our aims.
- Only giving out loans in 'borrowing circles', where every member must agree on the loan and is liable for it, like many traditional microfinance institutions which decreases possibility of non-repayment by spreading risk. Peer lending as practised by 'Fair Finance' in which repayment of a loan ensures that a peer will get their loan could have great potential and should be investigated further.

10.2 Potential Referral/Partners Microfinance Institutions

In the Tower Hamlets area there are a number of microfinance institutions including:

- Account3 is a women's co-operative based in Bethnal Green which provides a range of training, enterprise and development services for women. They provide mentoring and small loans to start up or scale up a business up to £2000. (www.account3.org.uk)
- Fair Finance offers microcredit loans to new or existing businesses. They offer to peer-lending groups as well as individuals and are in partnership with Account 3 and Street Cred. Loans are available to anyone living in Tower Hamlets, Hackney or Newham and you can borrow up to £5000.
- Street Cred encourages and supports women in London into business by providing microcredit. Street Cred clients form borrowing circle and have to get an agreement from the group before a loan is issued. If one person fails to repay the loan the group is penalised. This 'moral collateral' is the backbone of Street Cred's work. Any woman in East London who is on benefits or a low income can apply.

10.3 Interest Rates and Incentives

After much research and input from different experts it was felt that using interest rates on loans would complicate the running of the bank and inflict an unnecessary cost on those who have no spare money.

However, not adding interest to savings could deter many residents and it would be advisable to give them the option of interest or rewards. Interest can be paid from the

interest that is gained from the deposits held in the high street bank, or by partnering with a bank. This could beggar the question why would the residents hold their savings with MyBnk. The answer being 1) They can deposit small amounts frequently with easy access at MyBnk. 2) Incentives that help the transition to independence rather than interest are given as an option. 3) MyBnk does not let them withdraw the money before their move out of the Foyer. 4) Saving with MyBnk means entrance in competitions which could lead to prizes that are helpful for the move to independence. 5) Advice is provided specifically on saving for moving out.

However, if no interest was charged on loans it is important for all residents to be aware that there is a cost to money and to learn how interest rates work. This is achieved by ensuring that all those who take out a loan attend 2 compulsory workshops that deal with running a business and interest rates. Imposing an actual cost on borrowing money such as repayment by community work would probably make the system too complicated and hard to operate. Partnering with a bank or microfinance institution would mean that interest rates would almost certainly be used.

In terms of other incentives on savings MyBnk could investigate the possibility of creating a partnership with a supermarket or furniture company to provide vouchers once certain amounts have been saved instead of interest.

10.4 Security and Trust

Security and trust are the most important issues for residents and staff with the topic being brought up time and time again. There are a few trust issues that need to be worked out. These are how to trust the MyBnkers; how the money is transported safely to and from the Foyer everyday; and where the money is kept when it is on the Foyer premises.

1). The MyBnkers should be carefully selected, chosen both by staff and the residents. The first stage would be for residents to put nominees forward (including themselves). The second stage would involve staff input on each nominee. The third stage would involve attending a comprehensive training course where each nominee is monitored. Training courses for working in a bank are hard to come by. It may be easiest to set up a course in collaboration with a high street bank and other organizations. One day could be training from local bank staff and a couple of days could involve workshops on organization, customer services, finance etc. The MyBnkers would not be expected to provide comprehensive business advice at the end but would be expected to understand interest rates and the basic finances they are dealing with. MyBnk could provide leaflets to help them explain the basics. Success in this course would prove a certain level of responsibility and commitment to MyBnk.

It is recommended that each MyBunker be kept on a 3 month probation period before being allowed full responsibility in running the bank. It is recommended that all deposited money is insured by an outside agent.

2). In order for the bank to provide a useful savings facility for the residents it would have to allow for easy access to deposit money. This would mean preferably being open every weekday for deposits and repayments although not necessarily every weekday for taking out a loan. This is a problem as the Draper City Foyer does not have the insurance to keep residents deposits on the premises but it will be difficult to get someone to go to the High Street Bank everyday. Options are either to get one of the MyBnkers to deposit the money at the end of everyday, to get one of the staff to deposit the money every day or to get one of the MyBnk staff to deposit the money everyday. Otherwise MyBnk would have to find a

way to keep the money on the premises during the week where it would be safe. The money should also be insured.

3). When the money is on the Foyer premises which should be only for a short time it will be held with the MyBnkers who will have been properly vetted. It is also important to try and keep the amounts that are on the premises as small as possible. This could be done by depositing everyday, and by only taking out a certain amount of loans each day. It is recommended that it is also insured.

Further research is needed in:

- Collaboration and/or partnership with local microfinance institutions/banks.
- Setting up an appropriate training and qualification course for the Foyer MyBnk staff.
- Organizations available who would underwrite or guarantee the loans.

Bibliography

Financial Services Authority, *'In or Out, Financial Exclusion: A Literature and Research Review'*. July 2000.