Credit Where Credit's Due

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The Young Foundation study into High Interest Credit is now complete. The research used both quantitative and qualitative methodologies to establish and in depth understanding of the use of high interest credit in Wales. In so doing the research provides an overview of the experiences of people who use these products, their decision-making processes, and the impact on individuals and wider society.

Over 12 million people in the UK do not have access to affordable credit. An estimated 16.8 per cent are over-indebted. In Wales, the proportion is higher in every single local authority area with three among the UK's top 10 most over-indebted localities.

The report calls for real change to address this issue by improving access to affordable credit and providing people with the skills and confidence to make positive financial choices.

High cost credit customers come from all walks of life but they are mainly young families. They are equally likely to be employed as non-customers but are generally on low incomes.

The study found that customers borrow for a range of reasons including everyday living, Christmas and birthday presents, holidays, moving house or major events. Around 27 per cent will take out their first high cost loan because of life shock such as a bereavement, break up or birth of a child.

Six per cent of the Welsh population have used one or more of rent-to-own stores, home credit and payday loans in the last year. In recent years the attention has focused on payday loans but home credit and rent-to-own have largely escaped scrutiny despite being more prevalent and often more expensive. Sixty five per cent of high cost credit users turned to this option from the outset and do not compare offers between lenders.

The prevalence of high cost loans in the community has a major impact. The majority live in communities where this type of borrowing is 'normal'. Around 70 per cent think borrowing from a doorstop lender is common in their community. Family and friends often make recommendations and referrals between themselves.

The cycle of debt is further reinforced by some lenders themselves, particularly home credit agents. They encourage new loans when customers have almost paid of their debt or shortly afterwards. Over 35 per cent have taken out another loan when offered.

There are alternatives such as borrowing from a credit union or loans from friends and family. Only a third of those researched considered these alternatives. Many of those who borrowed from a credit union originally borrowed from a high cost credit lender.

The findings from this research led the team to conclude that this issue cuts across a wide variety of policy areas and action is needed on many fronts, including education, housing, advice, health and not least the market place itself. There must also be greater cross-sectoral collaboration from the public and private sectors, and civil society, including communities themselves.

The summary report can be found here whilst the full report with additional survey data and analysis can be found here. The key findings and recommendations of the team are summarised below.

Key Findings

- **Six per cent of the Welsh population have used one or more of rent-to-own stores, home credit and payday loans in the last year.**
- **Customers come from all walks of life but are most likely to be young families.** They are equally likely to be in employment as non-customers but are more likely to be on low-incomes.

- **Reasons for using high cost credit range from paying for Christmas or buying new items for the home, to simply paying the bills and making ends meet. For most, these represent essential purchases.** There are opportunities to help people plan better for some life events (e.g., a new child or house move) or to provide earlier, proactive support in face of others (e.g. a job loss or bereavement). Such 'life shocks' are triggers for around one-quarter.
- **The majority of people turn straight to high cost credit without considering different types of credit or comparing offers between lenders.**
- **High cost credit customers are typically extremely aware of their income and outgoings, often using 'jam jar' and other informal money management solutions.** However, a lack of financial capability and confidence in money-management are just one of the many factors that (often subconsciously) affect decision-making. As with the wider Welsh population, there is significant scope to improve financial capability.
- **Many see high cost credit options as being 'for people like me' and one of a very limited set of financial options.** This is, in part, a result of poor financial capability, combined with the attractive features of current products, and their common usage and acceptability.
- **The majority of high cost credit customers live in communities where these types of borrowing are normal.** 71% think that borrowing from doorstep lenders is common in their community. Family and friends shape decision making through recommendations and referrals, and by providing advice and practical help with money management. The power of these local networks and peer influence should not be under-estimated.
- **Home credit providers especially are in a strong position to encourage repeat borrowing.** Some customers will be in a cycle of almost continual doorstep loans for years, with agents targeting low-income estates and communities, particularly in the run-up to Christmas. Enabling people to divert even a proportion of their spend on expensive loan repayments into savings could have a significant effect on financial resilience and reduce their overall reliance on credit.
- **Customer perceptions of payday loans still firmly reflect the pre-cap market,** reinforced by media portrayals and past experiences. The cap on short-term high-cost credit has dramatically altered this product, limiting the total cost and reducing the chances of a customer ending up in major financial difficulties, yet it is by far the most stigmatised of the three forms of credit we investigated.

- **By contrast, rent-to-own and home credit have largely slipped through the net of negative publicity** around high cost credit, meaning that they are still seen as relatively acceptable choices, despite being extremely expensive options.
- **Regulating all forms of high cost credit out of existence is not the answer.** All three types of credit currently play an important part in the market and are successfully responding to consumer demand. Unless there are attractive and viable alternatives there is a risk that customers would be left with no access to credit at all and that some would turn to illegal lenders.
- **There is a clear need for growth in the affordable credit market** – both through the expansion of services delivered by existing providers, such as credit unions and Moneyline, and through further innovation

Recommendations

Ultimately, there is no silver bullet which can transform access to affordable credit. Our recommendations focus on five key areas of action which together could bring about real change to improve access to affordable credit and provide people with the skills and confidence to make positive financial choices or seek advice when needed:

Strategic use of policy and (self-) regulation:

- A commitment to deliver on the Financial Inclusion Strategy for Wales; • A 'financial wellbeing in all policies' approach;
- Regulation of promotion of repeat loans;
- Development of a process which enables people to 'self-ban' from specific types of credit or lenders;

Improving education and advice services:

- Implementation of the Financial Capability Strategy for Wales;
- Support for the creation of peer-led programmes;
- More cross-sector collaboration to identify early intervention opportunities;
- Piloting of locality-based services;

Improving outcomes by working with housing providers:

- Development of pre-tenancy guidelines;
- New pre-tenancy services;
- Improved home-furnishing packages and support;

Enabling innovation:

- Greater regulatory support for innovation;
- Improved funding for innovation through social finance;
- Cross-sectoral support for experimentation;

The market place:

- Strengthening and growing credit unions;
- New consumer credit and savings products;
- Improved understanding and segmenting of customers. Any innovation in the market place must fulfil the nine basic principles and product features outlined in this report.