# HIGH STAKES

## High Cost Credit Problems in Chesterfield

**Citizens Advice Chesterfield**

citizens advice

# Executive Summary

There is a range of high cost credit- from payday loans to catalogues to doorstep lending. As a provider of money advice to people in financial hardship, we are in a unique place to comment on the effects of this.

Summary of evidence

- The proportion of people we help with high cost credit money problems is increasing
- Doorstep loans, catalogue and mail order high cost credit issues rise whilst a reduction seen in payday loan issues following stronger regulation
- Lack of affordability of high cost credit can contribute to damaging multiple debt problems and poor mental wellbeing for users of high cost credit

Main Recommendations (See Page 7 for recommendations in full)

- The regulation and overall cap on the total cost of credit recently placed upon the Payday loan sector should be extended to other high cost credit sectors
- Action is taken to identify and address the wider causes and effects that lead to an undue reliance on high cost credit
- Further support is made available for responsible forms of lending and saving
- Greater investment is made in preventative and early intervention money skills coaching and debt advice support for people experiencing or at risk from problem indebtedness

# What is High Cost Credit?

The main types of high cost credit include short term credit (including payday loans), home-collected credit, catalogue credit, some rent-to-own, pawn-broking, guarantor and logbook loans. Other credit products – such as motor finance, credit cards and overdrafts – may be high-cost, particularly for less creditworthy customers or depending on how they are used.

There is no universal definition of high cost credit but it can be said to be characterised by one or more of the following: significantly high interest rates, high overall cost, large regular repayment terms.

**How we collected this evidence:**

- Our data from high cost credit issues (820 in 2016-7, 731 in 2015-6) & sample review of 156 money advice cases
- Evidence forms completed by our advisers
- Interviews with advisers
- Depth interviews with people who have used forms of High Cost Credit

# Barometer

## Trends in High Cost Credit issues reported to us

**40%** increase in Mail Order/online catalogue Debt Issues compared with previous year

**20%** reduction in number of Payday Loan issues compared with previous year

**4 in 10** people approaching Chesterfield Citizens Advice with money problems were users of high cost credit

## Profile of the people we`ve helped who have High Cost Credit

**9/10** have a household income below £1500 per month

**9/10** live in rented property or are staying with friends/relatives

**1 in 2** have a disability or long term health condition, most commonly mental health issues

**7/10** are female whilst only 3/10 are male

**1 in 4** are employed full time

**1 in 3** are single people with dependent children

The people we help with high cost credit problems are likely to be significantly more disadvantaged than the profile of people in Chesterfield Borough, the profile of people who use Citizens Advice Chesterfield & the profile of people seeking our help with all debt problems.

# Background to the High Cost Credit Problem

High Cost Credit  is a problem for many people who use our advice service. Whilst we all may need to use credit at some points of our lives, forms of high cost credit can quickly lead to unmanageable multiple debt and impact on our ability to maintain  our housing, health , relationships and jobs. People who use high cost credit have frequently done so because they cannot access more mainstream loans and credit. The credit and affordability checks made by high cost lenders often vary between the inadequate and non-existent. Without more robust checking, then people can simply be being `set up` to fail, or worse to become `credit dependent`.   Below we examine some key trends in the high cost credit.

**Doorstep Lending**– the re-emergence of `doorstep` lending, sometimes known as home collected credit, typically involves short term loans of £300-500 but at interest rates exceeding  500 %p.a.. Many people we have spoken to have taken out a doorstep loan when `in a fix`; but usually it doesn't stop there. People often move to having multiple loan accounts, confused as to when they make payment which account this comes off and its effect. Personal contact with local agents can mean it is difficult for some to say `no` to further credit offers. Doorstep lending is very evident around some council estates

**Mail Order /Catalogue** Also trending is credit for goods purchased by mail order or online. This is not always seen as high cost credit but it can be. Credit deals offering `interest free` credit for 6 or 12 months sometimes are far from credit free. Interest and other charges can be `backdated `towards the end of the agreement leading to debt and despair. People often have  limited or no knowledge of key terms and conditions.

**`Rent to Own` Credit**—Another form of high cost credit involving purchasing goods on `rent to own` or `buy as you go` terms.  Interest, Insurance and other charges can mean  that people pay 2 or 3x the actual cost of the item. Weekly repayments can be steep particularly if buying several goods at the same time . Once people use rent to own credit, this can be the start of repeated purchasing  within a short time span.

**Guarantor Loans**- High Cost credit can get you into difficulty even if you haven't had the benefit of the cash in the first place. The loans are marketed  as old fashioned or reassuring but guarantors don't always understand the implications of agreeing to be one. Some people mistakenly think they are merely providing a `reference` for another person`s  credit application. Worryingly, not all guarantors appear to have a signed agreement showing their rights and responsibilities

## Insights

- Payday loans issues have not wholly gone away despite regulation
- Worryingly many people  who used doorstep loans mistakenly believed that the agents who collected money were bailiffs like those they had seen on television, Unsurprisingly they were often motivated  to  keep repayments of the loans going `come what may`
- People with creditworthiness problems were often allowed to open catalogue accounts to buy outright without credit. However once they had made an outright purchase this was apparently seen as  evidence  of `creditworthiness` &  they were later offered a credit account.
- A factor in  people choosing  `rent to own or buy as you go` credit  was access to  well known `branded` goods. This gave the credit  `authenticity` in the eyes of several high cost credit users.

# What We Learnt About High Cost Credit Use

**10.** Households on tight budgets turn to high cost credit (HCC) like payday loans, doorstep loans, overdrafts to cover shortfalls in their household finances and how this can lead them to be at greater risk of falling into problem debt . Low income and making ends meet present significant challenges. In some instances, welfare reform such as the 6 week delay in receiving Universal Credit payments can present a need for immediate cash that HCC could theoretically meet.

**9.** Using high cost credit frequently put a huge hole in disposable income, often £50-75 per week from very limited incomes. The pressure of this led to non payment of priority commitments such as rent, council tax and a search for even more high cost credit just to `get by`.

**8.** People often had an awareness that the forms of credit they had used were high cost or had risks but were shocked to find out the extent. The `true reality` had not been factored into people`s decision– making & risk assessment of whether to take on high cost credit.

**7.** Use of high cost credit made people feel that their budgeting and control of money management had been lost. Loss of confidence is likely to be bad for future money decision making challenges e.g. starting a family, moving home.

**6.** Some of the people who had used high cost credit were young people. Often it was their first experience of using credit, HCC was attractive being potentially open and easily accessible to them. Bad first experiences are usually telling and can adversely affect making sound money choices for the future.

**5.** The use of high cost credit was linked to problem debt; a cause of significant stress and harm to mental wellbeing. It is very common for people to tell us that they have `sleepless nights worrying over debt or that they have approached their GP because they `feel depressed`. Relationships suffer when money worries are present.

**4.** Generally people told us they may well use `high cost` credit again, in spite of poor experiences because they could anticipate having a need for credit and it would be "the only form of credit I could get" because of their lack of creditworthiness.

**3.** Creditor checks for affordability to ensure a person could manage to repay were often slight or non-existent. Where checks were made these seemed flawed e.g. they might ask about income without proof or ask about income/expenditure but not whether person had debts or other problems that could undermine their efforts to successfully repay credit.

**2.** People had often found out about high cost credit through `word of mouth` from friends/ relatives or because parents/family members had previously used `door step credit`. Key `events such as loss of employment hours or illness, could provoke a need for an immediate cash lump sum that made advertising for high cost credit (tv/online for payday loans, leaflets for door step loans) compellingly attractive.

**1.** Where users of high cost credit ran into repayment difficulties , in some instances the response of creditors was inadequate when help was needed. People with mail order/catalogue debts informed us it was difficult to find someone at the creditor to speak to about repayment problems & were usually told they would `have to pay what you owe `.

# Mark`s Story

Mark lives in private rented property with his daughter. When a long term relationship ended, Mark experienced mental health problems. These problems led to him losing his full time job and having to rely on the sickness benefit, Employment Support Allowance.

Mark had a credit loan of £3300 which he could no longer afford. With a lower income compared to when he was in work and whilst waiting for benefit payments to start, Mark soon had significant rent arrears and council tax arrears to manage.  Faced with repayments, he could not afford, Mark acted on a notice pushed through his door  that he  felt unable to ignore. It was offering immediate credit, a cash lump sum brought to the door just by ringing a number. This was `home collected credit` or a doorstep loan. Mark thought that an immediate loan of £350 would help take the pressure off his family because he could make a payment towards what he owed to his debts. However repaying the `doorstep loan` created more problems than it solved.

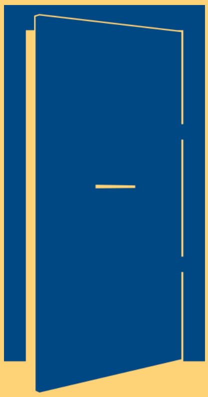
The weekly rate of repayment from limited benefit payments was hard to manage and the pressure to repay key priority housing debts soon reappeared.  Mark made an impact on reducing the amount owing on doorstep loan, but  facing other financial pressures he took up the agents offer of `top up loans`. Mark was now making very significant repayments, going to a number of accounts. He could never work out exactly what he owed on doorstep loans; only that it seemed to rise. The door stop lenders agent was a regular visitor to Mark`s home and told him that she was `his friend`. Mark was not able to see `the wood for the trees` to overcome  spiralling debt problems. Soon he had 8 different doorstep loans from 3 companies. He was paying £50 per week and owed £1800.  Meanwhile his landlord was threatening to evict because of being behind with the rent.  Worried about his debts, Mark went to his GP because he felt his anxiety and depression was worsening. Mark`s GP suggested he get  help from Citizens Advice which put him on the path to managing his finances

**“I suffer from depression. Not being able to meet regular repayments caused me even more stress and I could not sleep at night”**

## More about Door Step Lending

- Visiting people’s homes to sell them and their family loans puts people in a vulnerable and high-pressure situation. The offer of immediate cash at the doorstep can lead some customers to make unwise  choices

- It is worth remembering that major energy suppliers have abandoned  signing people up for contracts in their homes  because of poor publicity and recognition that people often did not make good choices in a home setting.



# Report Recommendations

1. In 2015, the Financial Conduct Authority (FCA) introduced an overall cap on the total cost of credit (including interest, fees) for payday loans so that "anyone who gets into difficulty and is unable to pay back on time, will not see the interest and fees on their loan spiral out of control ". We would like to see the overall cap on the total cost of credit extended to other forms of high cost credit.
2. We propose improvements to the FCA rules on creditworthiness and affordability checks conducted by high cost credit lenders to overcome any lack of clarity in the current guidance,
3. We would like to see the FCA introduce stronger requirements upon firms to train doorstep lending agents on their responsibilities and rights of borrowers
4. We would like to see the FCA introduce a requirement for doorstep lending agents to disclose that they operate on a commission basis. The FCA could investigate the detriment arising from door step credit sector.
5. We would welcome FCA initiatives to improve clarity around potentially misleading advertising about `interest free ` credit with particular regard to the catalogue/mail order credit sector having clearer requirements to specify the interest rate and the overall effect of promotional `interest free` periods coming to an end.
6. Renewed efforts are made by Government to support and encourage responsible lending and saving from safe, secure Credit Unions and Community Banks
7. A review is undertaken of the underlying causes of why lower income households rely so heavily upon the high cost credit with Government action to mitigate against or remove root problems wherever possible.
8. Increased resources are made available to enhance free independent face to face debt advice to assist people vulnerable to the detriment caused by high cost credit (early intervention) and an increase in face to face financial capability learning (prevention)

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