Credit where credit's due?

Understanding experiences of high cost credit in Wales

Extended report

THE YOUNG FOUNDATION

E·S·R·C ECONOMIC & SOCIAL RESEARCH COUNCIL

Public Policy Institute for Wales
Sefydliad Polisi Cyhoeddus i Gymru

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We have not listed here the experts who generously gave their time and linked us into their networks, in order to help preserve the anonymity of many consumers, but we thank you for your support.

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About The Young Foundation

We believe inequality undermines the economy and corrodes our wellbeing, leaving its mark on communities, relationships, aspirations and self-worth. The Young Foundation is working to create a more equal and just society, where each individual can be fulfilled in their own terms.

Through research and social innovation we work with public and private sectors, civil society and individual citizens to empower people and bring about change which will enable everyone to lead happier and more meaningful lives.

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→ You can find a summary report of this research at :
www.youngfoundation.org

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summary

Access to affordable credit is something which most people take for granted. It underpins daily life, enabling the purchase of everything from cars and holidays, to a new sofa or television, that might otherwise be out of reach. Credit helps people to support their families and to contribute and participate in their local community and wider society. It also makes a valuable contribution to our economy.

Yet around 12 million people in the UK are estimated to lack access to affordable credit, leaving them financially excluded and paying high rates of interest which deplete already constrained budgets. The most (in)famous form of high cost credit is that of payday loans but as this research demonstrates, other forms of high cost credit – home credit (often called doorstep loans) and rent-to-own - are far more widely used across Wales. This research set out to understand the experiences of people who use these products, their decision-making processes, and the impacts of this.

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.

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.

introduction

Access to credit is an important part of 21st Century living – many people rely on it to purchase everything from a new home, to a mobile phone. For some people it is also an important element in simply managing their day to day living. Credit can help people to deal with economic shocks, manage the consequences of an irregular income, and spread the cost of high price items. However access to affordable credit can be a major challenge for many households, typically classified as 'sub-prime', who then turn to higher cost options such as home credit, payday loans, rent-to-own, and pawnbrokers.

Some lenders estimate that 12 million people in the UK are using the 'alternative', high cost credit market because they lack access to mainstream credit[1,2].

A culture of credit and debt

This borrowing takes place in the context of a challenging economic climate in Wales, including national uncertainty around the future of the steel industry and further possible cuts to the public sector. It reflects the difficult financial situations in which many people find themselves. Wales has experienced an enduring wealth gap when compared to the England[3]. Whilst there has been some progress in addressing this, it has been slow and Wales continues to trail behind on a number of economic indicators, including employment. In early 2016 the employment rate in Wales sat at 72.5% compared to the UK's 74.2%[4]. In addition, a report by Joseph Rowntree and the New Policy Institute[5] found that the number of working age people, and particularly young adults, in poverty has increased in the last ten years. Attempts to reduce the extent of low pay in Wales have been largely unsuccessful and 270,000 jobs, mainly held by women, are paid only two-thirds of the UK median hourly wage[6].

Consumer debt has also long been a problem for UK households. Since the end of 2012 personal debt has sat at approximately 140% of gross disposable income[7] and at the end of February 2016, outstanding UK consumer credit lending was a staggering £180.7 billion[8]. An estimated 16.8% of the UK population is over-indebted[9]. The UK's over-indebted population are more likely than non-indebted people to be young (25-34), female, have children, to be unemployed, and to rent their home.

In Wales, the proportion of people over-indebted is higher than the UK average in every single local authority, and three (Blaenau Gwent, Merthyr Tydfil, and Rhondda Cynon Taf) are in the top 10 most over-indebted in the UK. It is estimated that 19.6% of people in Wales are over-indebted[10].

Households in Wales also have the smallest family savings pot in the UK with the average around £875[11]. Four in ten adults in Wales have less than £500 savings[12]. This has severe implications for financial resilience with many households not having enough savings to cover financial shocks. For some a faulty washing machine or a broken down car can be enough to wipe out savings completely.

It is in the context of this precarity that consumer borrowing and debt must be viewed. For many, credit is a way to deal with the realities of financial insecurity. For some, high cost, short-term credit can be a positive choice, quickly meeting their needs and more affordable than options such as an overdraft. For others, it represents a fundamental exclusion from mainstream credit markets.

This is bad for individual wellbeing but also for families, communities and the country more generally. The money which people spend on costly loan repayments could otherwise be invested in activities which boost standards of living and local economies. If debt becomes unmanageable it can have a significant impact upon the quality of life of individuals and families and in some cases on the life chances of children[13].

Families that have problem debt are often forced to play off needs against one another as they are caught between the choice to repay debts, buy essentials or cut back[14]. In the UK there are approximately 2.4 dependent children living in households that have problem debt[15]. The impact that this has on families can be significant and many children report feelings of worry and anxiety resulting from unmanageable levels of debt.

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15. Ibid.

Many people who experience problem debt also experience problems in their physical and mental wellbeing[16,17]. There is evidence to suggest that debt can increase the risk of poor health[18] and may even have a dose effect meaning that the more debt a person has the greater the likelihood of poor health[19,20]. There are also strong links between mental health and debt, with debt likely to be both a cause and consequence; many people with problem debt report that it has had a negative impact upon their mental health and in some cases has caused them to seek help from a GP[21]. In addition debt can often be associated with loneliness and isolation as debt places strain on relationships[22] and can limit the ability of people to socialise[23].

Tackling high cost credit

In the UK and Wales attempts have been made to try and limit the negative impacts of high cost credit and to increase access to more affordable options. In 2014, the FCA announced a cap on interest rates for short-term credit products. This has had a significant impact upon the payday loan market with the Citizens Advice Bureau seeing the number of people reporting problems with payday loans fall by 45% between January and March 2015 compared with the same period in 2014[24].

However, other forms of high cost credit are still equally, if not more, prevalent in Wales, particularly home credit and rent-to-own stores. A 2015 report by the All-Party Parliamentary Group (APPG) on Debt and Personal Finance found that the rent-to-own sector in the UK is dominated by three main retailers who have a combined customer base of more than 350,000 households[25]. In 2011 evidence submitted to the Department of Business, Innovation and Skills Report on Debt Management[26] the home credit market was reported to be worth an estimated £4 billion, approximately double what the payday loan market was then worth at an estimated £1-2 billion.

The Welsh Government has been seeking to tackle poverty through three strands of work: by preventing poverty through early intervention, by helping people into work, and by mitigating the impact of poverty[27]. As part of this work the Welsh Government has provided strong support for the credit union movement in Wales, a more affordable credit provider, but despite this, membership levels remain low.

In addition there has been an increasing number of campaigns that focus on increasing access to affordable credit. These include the 'To your credit' campaign by the Archbishop's Task Group on Responsible Credit and Saving, and the campaign by Unison in association with the Centre for Responsible Credit which is designed to lobby and advocate for greater regulation of high cost credit options.

Our approach

This research makes a contribution to this work by investigating and describing, in rich detail, the 'borrower's eye view' of high cost credit. We set out to understand the scale of the issue, pathways into and journeys through high cost credit, and the impact this has.

It is our view that to really be able to tackle the issues associated with high cost credit we first have to understand why people use these services. We placed the high cost credit customer at the centre of the work and considered the trajectory of their experience, using work on customer journeys[28] as a basis we opted to consider the experiences of the customer before credit take up, as credit decisions are made and then subsequent processes and behaviour. It was important to us that we build on the understanding of these phenomena as complex[29] and multifaceted and that the work was informed by literature which focuses on the 'local' aspects of economies and the ways in which the cultural and social context of customers come to shape the possibilities that customers believe are open to them and the decisions that they take[30].

We aimed to identify opportunities for new and improved products, services and ways of engaging consumers – and to outline what might work as alternatives to high cost credit.

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methodology

This report is based on research conducted across Wales in 2015. We focused on three main types of high cost credit:

• Home credit - Often known as doorstep loans, repayments on cash loans are collected by an agent from the customer's home.

• Rent-to-own - Sometimes referred to as hire-purchase, the customer typically pays a weekly amount for a fixed term. At the end of the term the customer owns the product but until that point it is only leased, allowing the customer to return it if they wish, or the lender can repossess the goods if payments are not made.

• Payday loans - Payday loans are a form of short-term credit, typically for small amounts of money. They are available online and in high street shops.

We took a mixed-methods approach combining robust survey data with deep qualitative insights:

Review of existing evidence

In the preparatory phase, we carried out a rapid review of the existing literature. This provided an overview of the experience relating to borrowing behaviours in low income households, attitudes to debt and borrowing, and the effectiveness of alternative credit providers on dealing with vulnerable customers. This included grey literature produced by regulators, third sector organisations and industry bodies.

A nationally representative survey of 1,000 members of the Welsh population

The survey questions were included on an 'omnibus survey' conducted by Beaufort Research in June 2015. The Omnibus sample is designed to be representative of the adult population resident in Wales aged 16 and over. The unit of sampling is Lower Layer Super Output Area and 69 interviewing points throughout the Wales are selected with probability proportional to resident population, after stratification by Local Authority and Social Grade. Within each sampling point, interlocking demographic quota controls of age and social class within sex are used. Quotas reflect the individual profile of each interviewing point.

Interviews were conducted face to face in the homes of respondents using Computer Aided Personal Interviewing technology.

A survey of 134 customers of high cost credit and/ or credit unions across Wales

A separate follow-up survey of these customer groups was conducted in October 2015, again by Beaufort Research. Respondents were recruited in a number of way, including those who had agreed to be re-contacted from the original omnibus survey, through further recruitment in areas of high footfall and through contacts identified via the qualitative research. Loose quotas were in place to ensure a roughly even mix of respondents, by credit type, based on their most recent loan or credit agreement: 31 payday loan customers; 33 home credit customers; 33 rent-to-own customers; and 37 credit union customers. Interviews were conducted face to face in the homes of respondents using Computer Aided Personal Interviewing technology.

In-home depth interviews with 24 high cost credit customers and nine focus groups with 77 high cost credit and affordable credit customers

Depth interview participants and focus group participants were recruited in two main ways: a) through partner organisations and local experts willing to help identify local people who met our criteria (such as housing associations, community groups, credit unions and Moneyline, higher education establishments etc.); or b) by using professional market research recruiters who use their local networks in communities to identify people who met our criteria.

Interviews took place in 10 key areas across Wales. One "area" may represent several small towns and villages within a small radius. Groups were advertised in English and Welsh, but no requests to participate in Welsh were received.

Depth interviews were conducted in the individual's home and focus groups were conducted in local central locations. A few interviewees also participated in follow-up telephone interviews over the course of 2-3 months to gather additional detail. All were facilitated by a member of The Young Foundation research team using a semi-structured guide. Participants were thanked for their time with a widely accepted shopping voucher.

Telephone interviews with 26 expert stakeholders

In-depth interviews were conducted with a wide range of experts, as well as drawing on the knowledge of our advisory board. Experts were identified by desk research and via referral, and came from a number of perspectives: high cost and affordable lenders; the advice sector; housing associations and community groups; public sector representatives; and a number of other independent experts and innovators in the field.

We also held a far larger number of less formal and structured conversations with people from across the sector during the course of our research. Interviews were conducted by a member of The Young Foundation research team.

Co-production workshops

Upon completion of the main research phase we held two co-production workshops (Cardiff and Wrexham, January 2016) to bring together representatives from national and local government, housing and advice sectors, the lending community, other activists, and consumers themselves to discuss the findings and help shape the recommendations arising.

High cost credit

For the purposes of this research we have focused on the three most common types of high cost credit:

Home credit

Rent-to-own

Payday loans

You will also see throughout this report reference to other types of credit such as :

Banks and credit card

Affordable lenders

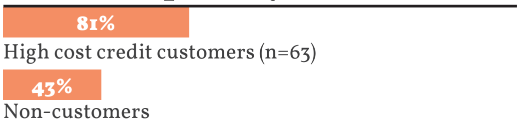
Illegal lenders

who borrows?

High cost credit customers are slightly more likely to be female (55%) and are...

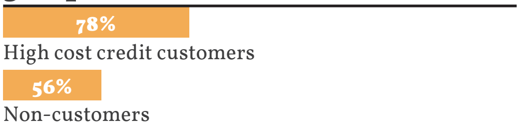
Less likely to own their home

FIGURE 1
Rent - council/ housing association/privately



Less well-off

FIGURE 2
In socio-economic group C2DE

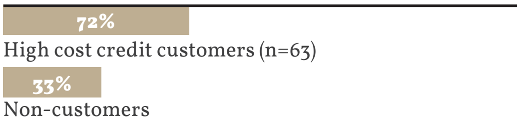


Younger, often with young families

TABLE 1
Age

	16-34	35-54	55+
HCC customers	36%	53%	11%
Non-HCC customers	29%	31%	40%

FIGURE 3
Have children under 16



Base: Nationally representative survey of Welsh population. 63 high cost credit customers; 948 non-customers.

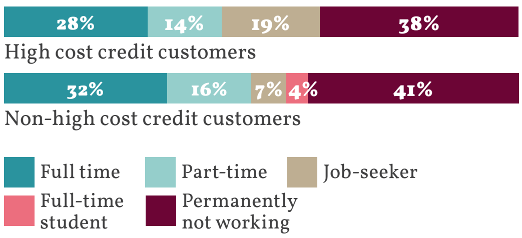
Importantly, however, there is little difference in employment profile. Many of those using high cost credit are the 'working poor', typically in low-paid work and often part-time or with irregular hours.

"I do five days a week and all the overtime that I can do as well because at the moment we've got to sort the money out for these kids for Christmas and everything ... it will be nice to get some money behind us." (Male, 25-34, High cost credit customer)

42% of high cost credit customers are in full/part-time employment, compared with 48% of non-customers (see Figure 4). The lack of full-time students in the high cost credit customer group of our sample may well reflect the fact that many students who turn to this type of credit are also in part-time work.

FIGURE 4
Employment status

Base: Nationally representative survey of Welsh population. 63 high cost credit customers; 948 non-customers.



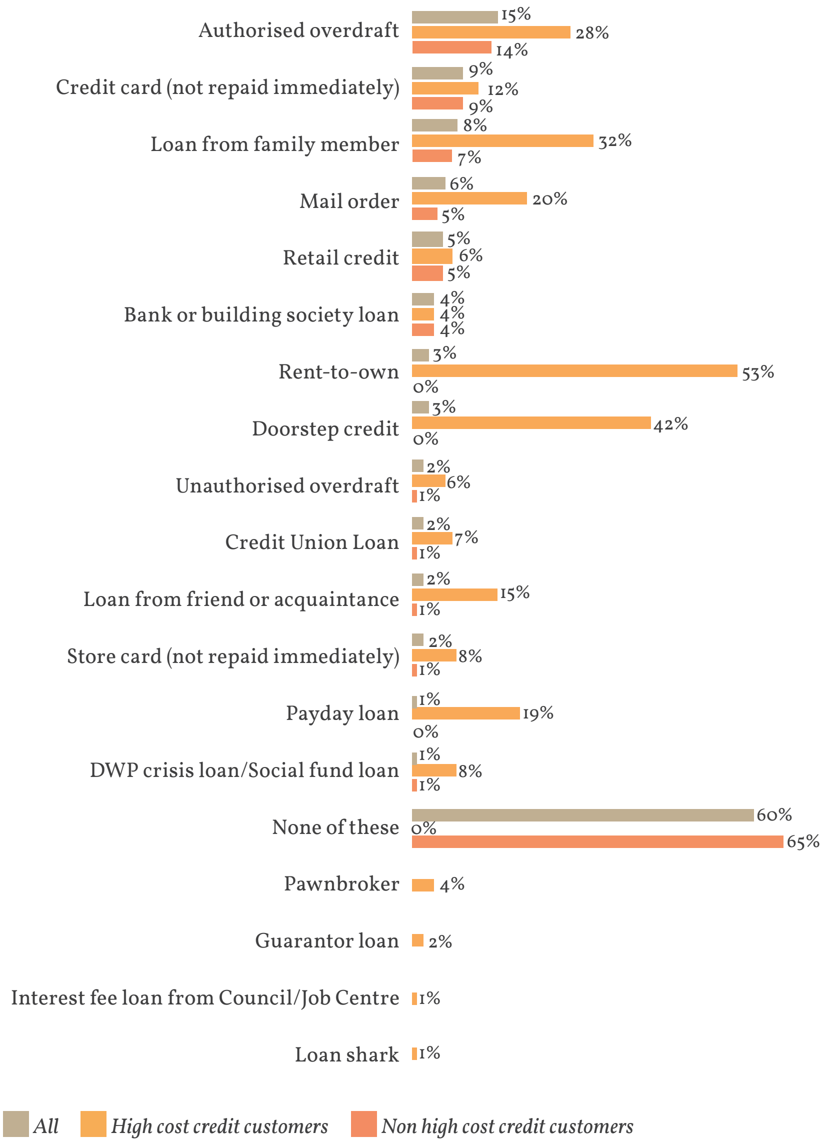
"A lot of my life I spent self-employed, and when you're self-employed you never know where the next wage is coming from, or if it's going to come. So you might think well I'm going to be okay, but actually then you're not. So you don't get the money in, and that's what happened in my case." (Male, 65-74, high cost credit customer)

High cost credit customers are more likely to have borrowed from almost all sources except from mainstream lenders: banks, building societies and credit cards.

High cost credit customers are also more likely than non-customers to also rely on loans from family and friends, make unauthorised use of overdrafts, use mail order-catalogues, and other forms of expensive credit such as pawnbrokers (see Figure 5).

FIGURE 5
Types of credit used in the last 12 months

Base: Nationally representative survey of Welsh population. 63 high cost credit customers; 948 non-customers



"There are a lot of alternative credit and banking facilities, it's just not available for the most socially, digitally and financially deprived and excluded people unfortunately." (Expert, Housing Association).

This indicator of financial exclusion is further supported by the fact that high cost credit customers are less likely to have a bank account or credit card (see Table 2). 13% of high cost credit customers do not have a bank account compared with 7% of non-customers. They are slightly, but not significantly more likely to have a Post Office account or credit union account.

TABLE 2
Use of financial services

	High cost credit customers	Non-high cost credit customers
Bank or Building Society account	87%	91%
Credit card	29%	40%
Post Office card account	16%	13%
Credit union account	10%	5%

LIMITED FINANCIAL RESILIENCE

High cost credit customers are less likely to have a savings account than non-customers (see Table 3). Unsurprisingly, they are also even less likely to have another form of savings, such as a Cash ISA (see Table 4).

TABLE 3
Cash savings account

	YES	*NO*	*refused*
HCC customers	36%	64%	
Non-HCC customers	46%	49%	5%

TABLE 4
Other savings account (e.g. ISA)

	YES	*NO*	*refused*
HCC customers	19%	81%	
Non-HCC customers	32%	63%	5%

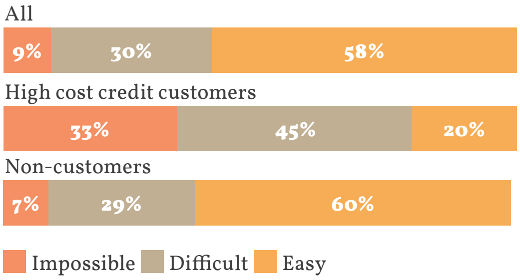
Base: Nationally representative survey of Welsh population. 63 high cost credit customers; 948 non-customers.

"I do try [to save], but then, like I said, as soon as you've saved something, something comes up and you have to use it for that." (Female, 25-34, high cost credit customer)

High cost credit customers are also much more likely to find it difficult or impossible to raise money in an emergency, without borrowing. Four-fifths of high cost credit customers would struggle to find £200-300 without borrowing (see Figure 6). This means that most would struggle to replace a broken washing machine and lack the financial resilience to face a more significant income shock or unexpected bill.

FIGURE 6
"How easy would you find it to raise £200-300 in an emergency without borrowing?"

Base: Nationally representative survey of Welsh population. 63 high cost credit customers; 948 non-customers.



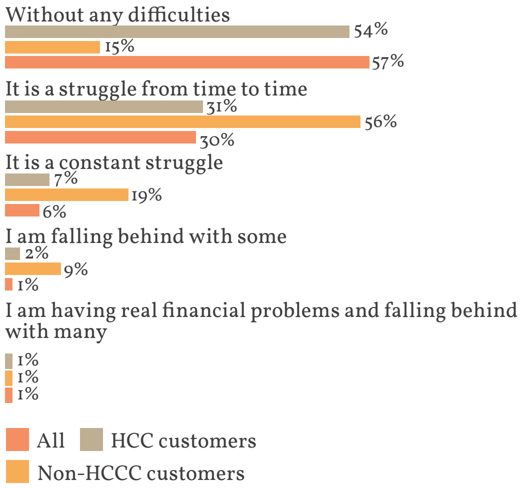
"The thing about most people round this table, and maybe I'm wrong, is that if they had a change in their income of even like £50 you'd have to stop and think. But if you're in the financial bracket where money is no object, or you've got spare money, £50, you can absorb it. If you're on basic money or very low money then all of a sudden £50 becomes like £500." (Male, 69-74)

DIFFICULTIES MEETING COMMITMENTS

Their relatively low household incomes and lack of financial resilience means that, unsurprisingly, customers of high cost credit are significantly more likely to experience difficulties with keeping up with their bills and credit commitments than non-customers (see Figure 7).

FIGURE 7
"How well are you keeping up with your bills and credit commitments at the moment?"

Base: Nationally representative survey of Welsh population. 63 high cost credit customers; 948 non-customers.

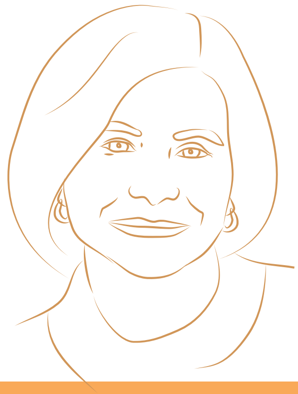


Sarah
When paying her bills, Sarah would often incur bank charges because she didn't have the money in her account at the right time. She has recently started putting her bill dates on her calendar so she can keep better track of when they are due and make sure she has the money in her account. If she could change something about the way she managed her money in the past, it would be to "pay my bills on time" because they just mount up and you end up never paying them back.

Ben

"My name is Ben. I took out my first doorstep loan when I was eighteen. I wanted to buy a car, I ended up spending it in the pub. I accumulated a lot of credit card debt in my late 20s and early 30s when living in Scotland. Since moving to Wales, I have not joined the electoral roll so my creditors haven't been able to find me. I took up another doorstep loan when an agent knocked on my door and offered £150, though I didn't particularly need it. I have since had a few more loans with them. I am a self-employed painter/decorator with an unsteady income, these loans see me through quieter times at work."

Read Ben's story at the end of this report.



Sophie

My name is Sophie. I have borrowed from doorstep lenders for over 14 years, since my son was young. Since then I've been in constant debt really. Doorstep loans are my only real option because of my poor credit rating and because I have had no steady job whilst raising my two children on my own. I have been refused credit from payday lenders and catalogues."

Read Sophie's story at the end of this report.

Joel

"I'm Joel. I have a full-time job in Cardiff. I had bank loans and credit cards when I was young, although never high cost credit. But things just catch up with you and earlier this year my car needed repairs costing nearly £1,000. This came up at a bad time; I didn't have the cash handy but I needed to use my car - so I used a pay-day loan. It was okay, I didn't have any trouble paying it off the following month."

Read Joel's story at the end of this report.

Anna

"I'm Anna. I have been borrowing, almost constantly, from a doorstep lender since I was eighteen. My partner used to manage our money and benefit payments. When he died, unexpectedly, three years ago, there were six weeks or so when I had no benefit income and also had to cover the cost of his funeral. I was in a desperate situation. So when I saw a payday loan advert on the television, I borrowed £100 to buy food. However, I ended up having to constantly borrow from them in order to pay back previous loans. My daughter had to block my account in the end."

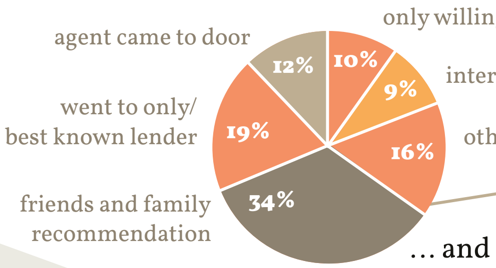
Read Anna's story at the end of this report.

The high-cost credit journey

I need a first loan

payday loan | home credit | rent-to-own

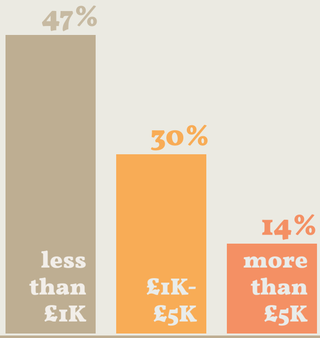
for **80%**, **high cost credit** is their first port of call



... and
is impo
lender

on average, customers have taken out **4 different types of credit**

50% have been encouraged by a lender to borrow again



almost **half** of those with a current loan or credit agreement **owe over £1,000**

Data based on 103 people who have taken out either a payday loan, doorstep loan or hire purchase credit agreement within the last 12 months. Fieldwork took place in October 2015 and was conducted by Beaufort Research, face to face in areas of high footfall and in consumers' homes, in five locations across Wales.
*82 people whose first loan was high cost credit
**50% of our sample of 103 people said they have taken out other loans or forms of credit previously.

20%
christmas

it's used for a wide range of purposes...*

11%
new white goods

11%
consumer electronics

10%
rent/bills/ other debts

7%
everyday living

... and triggered by a life shock for 26% (unemployment, had a child, family break up).

but **63%** is for **essential** expenditures

only **1/3** considered **alternative credit options**

e.g. **loan** from a **family** member or a **friend**, **credit union**, **bank** or building society

g lender

est rate

er

recommendation
ortant in choice of

12% **affor-dable payments**

20% **only option**

20% **easy process**

22% **quick to get cash**

but there is usually **a clear rationale for choice of credit**

of repeat borrowers**, **two-fifths have had loans** all or most of the time.

half have had **difficulties keeping up with repayments**

almost **half** have experienced **anxiety or stress** as a result of debt.

the first loan

TYPE OF CREDIT

High cost credit is often the first experience that people have with borrowing or taking out a credit agreement. 80% of high cost credit customers turn to this option from the outset, with no previous consideration of alternatives (see Figure 8). Those who did not use high cost credit for their first loan are most likely to have taken a loan from a bank or building society (7%) or a credit union loan (5%).

It is important to note, however, that this study focuses on those who have borrowed a form of high cost credit in the last year and that quotas were set to ensure of a mix of home credit, payday loan and rent-to-own customers – the mix of high cost credit products first used may, therefore be skewed by this to some extent. This can be seen if we compare the type of lender used for the first loan with the type of credit used most recently (see Table 5).

TABLE 5
Type of lender used for first loan, by type of most recent loan

Base: 103 high cost credit customers: 31 using a payday loan most recently; 33 using home credit most recently; 33 using rent-to-own most recently.

	Most recent loan		
	Payday loan	**Home credit**	**Rent-to-own**
First loan			
Payday loan	84%	0%	3%
Home credit	3%	76%	21%
Rent-to-own	0%	3%	61%

Further, 50% of our sample had taken out their first loan in the last 12 months. Of those who have had least one other loan in the past, 61% turned straight to high cost credit[1].

However, it is also of note that those who have accumulated £3,000 or more of debt at some point in their life are more likely to have taken their first loan from a bank or building society (21%) than those whose have never owed that much (0%).

Nonetheless, conversations with customers suggest there may be a degree of under-reporting of certain types of 'first' borrowing. In-depth discussions reveal that people often discount certain experiences, for example rent-to-own or catalogues and mail-order because they only consider cash loans. Loans from friends and family are also often forgotten or excluded. Many women in particular would tell us about catalogues as one of their first forms of credit, although only a minority (2%) in our survey mentioned that their first loan was from a from a Mail Order catalogue.

"I've never ever really borrowed, only because I'm so scared… if I've needed anything it's always been, like a catalogue or I've had to really save for it" (Female, 18-24, credit union customer)

1. *Base: 74 customers who had taken out high cost credit in the previous 12 months and had at least one other loan in the past.*

FIGURE 8
Type of lender used to take out first loan

Base: 103 high cost credit customers

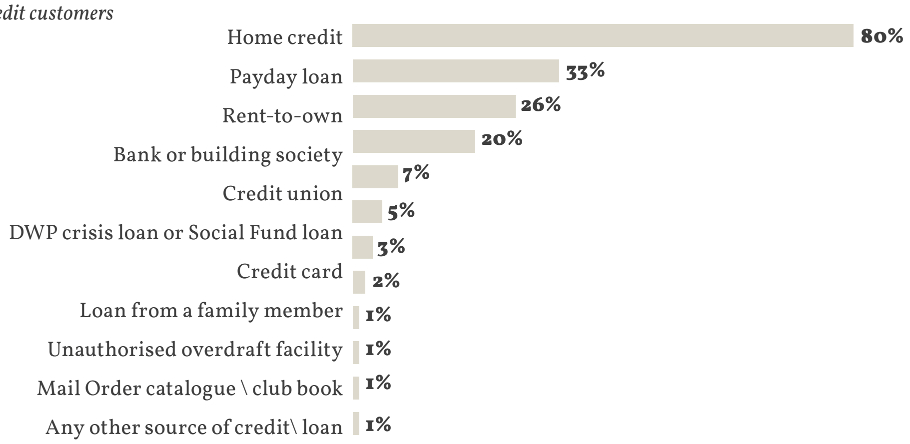
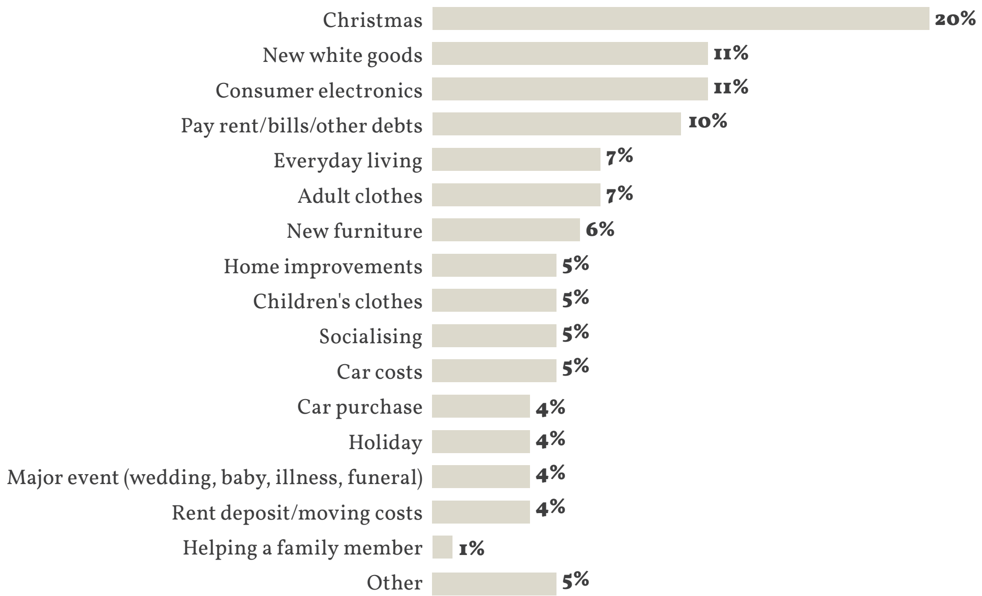


FIGURE 9
Purpose of first loan

Base: 82 customers whose first loan was high cost credit



Many of those who have **borrowed from a credit union in the last 12 months** originally borrowed from a high cost lender. 34% of all credit union customers have previously used high cost credit. Of credit union borrowers who have taken out more than one loan, **48% took out their first loan from a high cost credit lender.**
(Base: 38 credit union customers; 27 who have taken out more than one loan)

LOAN PURPOSE

Customers borrow for a wide range of reasons. These include a mix of everyday living costs, 'pinch points' such a Christmas, birthdays or a house move, and a desire for new consumer goods (see Figure 9). Other reasons include home improvements, furniture, holidays and major events.

For those whose first loan was from a credit union, the main reasons for taking it were: Christmas (35%); Rent deposit/ moving costs (24%); New white goods (12%). *(Base: 17)*

There are also some significant differences in how first loans, according to the type of credit (see Table 6).

TABLE 6
Main reasons for taking out different types of loans, by credit type

Base: Customers whose first loan was: Payday loan (27); Home credit (34); Rent-to-own (21)

Type of credit	Most common reasons for loan
Payday loan	Pay rent/bills/debts (22%); Adult clothes (19%); Daily living (11%); Car costs (11%)
Home credit	Christmas (41%); Everyday living (9%); Home improvements (9%); Socialising (9%); Children's clothes (9%)
Rent-to-own	New white goods (38%); Consumer electronics (33%) New furniture (10%)

"I just think I was short of cash. I needed food and things like that, you know, clothes." (Male, 45-54, rent-to-own customer)

"When the kids were little, when we moved down, we went into doorstep loans then, at Christmas time." (Female, 45-54, rent-to-own customer)

In addition, 50% of all first loans were triggered, at least in part, by the fact that the borrower's income was simply "not enough to make ends meet". While many of the ways in which credit is used represent considered or planned expenditure, for example home improvements, furniture or paying for holidays, two categories of spend stand out. The first can be classified as 'unexpected costs', for example a broken domestic appliance, car breakdown or sometimes even the costs of moving house at short notice. The other is the importance of Christmas as a trigger to borrowing.

Unexpected costs

Car costs, the breakdown of white goods or broken furniture can all come out of the blue. Unexpectedly large bills are also a reason.

So too can be moving costs. People often find out at relatively short notice that they have been allocated a new property or that they need to move, and so can struggle to find the money for deposits, the move itself and furnishing a new property.

The sudden realisation that a significant amount of money is needed can lead some to feel a panic and desire to solve the problem straightaway. This can make the speed associated with high cost products, particularly payday loans and to some extent rent-to-own, extremely attractive.

"I had a big bill. It was electric or gas … I had to pay it and because they wanted it all in one lump sun, I was short for that month. So I had to make sure I had enough food there. So I had to ask for that money off [the payday loan company], that's what I got it for … I'd seen the bill, I shit myself … 'Let's just get it over and done with, let's pay out the way. I know it's going to be hard for a month but let's just pay it out the way." (Male, 35-44, payday loan customer)

"I think generally the kind of things you would go for a short-term, small, few hundred quid loan, are emergency things that you need, you know … your car will always break down - when you've got money it'll be fine and when you're having a bit of a tight month, that's when everything goes" (Male, 45-54, payday loan customer)

The importance of Christmas

The most common reason given for borrowing from home credit and credit unions was for Christmas. Home credit customers explain that home credit agents are highly present around Christmas time and use it as a tool to persuade and encourage borrowing, often playing upon parental guilt.

"Being on your own with three kids coming up to Christmas, when they're chucking £100 vouchers in your face. I knew that I wouldn't pay them all back, but as long as I had £100 to go and get her a bit of Christmas, any mother would be the same." (Female, 45-54)

"Christmas costs you a fortune when you've got three kids." (Female, 35-44)

Christmas is, however, a predictable expense. Many high cost credit customers will take vouchers or a cash loan from their home credit agent or credit union every year. That line of credit is often reserved later in the year for this purpose to ensure that the cost can be spread over the following months.

"This is the only one [home credit loan] I've got now, so I'm getting somewhere, until Christmas comes and then it will be something else, won't it?" (Female, 25-34)

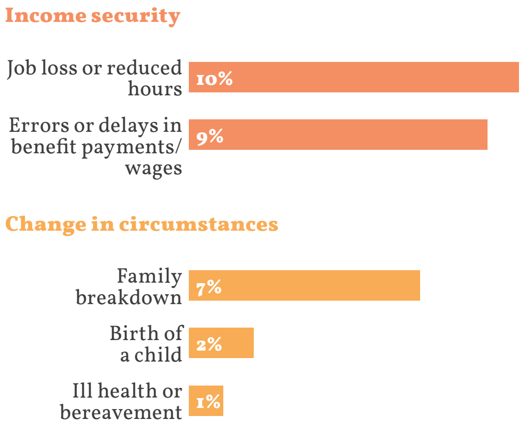
"Come Christmas, you know, you can get vouchers and stuff… So, say, I might have £300 in cash and £200 in vouchers. Then, because I've been with them so long, I think that was about £25 a week for the £500." (Female, 45-54)

Aside from the purpose of the loan, for 26% , the need to borrow was triggered by a 'life shock' (see Figure 10). 'Life shocks' encompass a variety of events or situations. They can be related to income security (e.g. becoming unemployed or being made redundant, errors or delay in benefit payments or wages), or a change in personal circumstances (e.g. ill health of a family member, bereavement family break up, or having a child). Such a sudden change in a person's circumstances can leave them feeling in need of money quickly.

"My boyfriend had passed away and he was claiming for me. So of course I had to notify them that he had passed away, so I had to wait ages then for them to sort my claim out on my own … I was so desperate at the time, it sounded a good thing… I didn't have 10p. Not a meal in the house for the kids" (Female, 45-54)

FIGURE 10
Proportion of first high cost credit agreement triggered by a 'life shock'

Base: 82 customers whose first loan was high cost credit



Angela

When Angela's status changed from 'sheltered accommodation' to 'independent living', she experienced problems with her benefits.
The forms had previously been managed for her by her key worker where she lived. She was unaware until she had problems that the change would have an impact upon her benefits. When she found out that she was going to be left without money and would have to live in a house that had few basic items she decided, that day, to take out a payday loan.

Overall, the majority of borrowers feel that they took out their first loan for essential purchases and 63% of borrowers 'definitely couldn't have gone without' what they purchased (see Figure 11).

"When the kids were little, when we moved down, we went into doorstep loans then, at Christmas time." (Female, 54-54)

"I think it's because we were in a desperate situation in the first place" (Male, 35-44)

FIGURE 11
Necessity of purchase

Base: 82 customers whose first loan was high cost credit

THE DECISION MAKING PROCESS

The decision making process about what type of loan or credit agreement to take out the first time was, at best, limited. Only one-third considered alternative credit options before taking out their loan (see Figure 12). The main alternatives considered were banks and building societies, a loan from a family member, or from a credit union (all 6%).

Rent-to-own customers are least likely to have considered other options; 90% did not, compared to 68% of home credit customers and 48% of payday loan customers.

The top reasons given for choosing the type of credit they did, as opposed to an alternative, include speed, simplicity and recommendation, along with a perception of the availability of alternatives (see Figure 13).

They've got stuff you need that you can't afford in shops. So just go to [the store] and pay weekly for things that you can't actually afford."
Male, 18-24, rent-to-own customer

There are significant variations according to the type of credit used (see Table 7).

For example, payday loan customers are most likely to have considered it their only option/ the only willing lender (30%).

"I didn't really look around to be honest with you."
Male, 35-44, payday loan customer

That someone came to the door is, unsurprisingly, almost exclusively associated with home credit, and a reason for just over one-quarter (26%). Home credit customers are also more likely to have taken family recommendations (24%).

"It was never a good option because of the amount you have to pay back, but there was just no other way of doing it ... because I've got bad credit, it was just one of the only options really." (Female, 25-34, home credit customer)

An affordable and convenient payment schedule is significantly more likely to be been a reason for rent-to-own customers (38%).

"I think it was, sort of a recommendation. Somebody else had had it, I can't remember who. I think it might've been my ex-husband's family." (Female, 45-54, rent-to-own customer)

"They've got stuff you need that you can't afford in shops. So just go to [the store] and pay weekly for things that you can't actually afford." (Male, 18-24, hire purchase customer)

For those who went to a credit union for their first loan, **the low interest rate was the main driver (59%)**. The weekly/ affordable payment plans are also attractive and some had a pre-existing account before needing a loan. *(Base: 17 customers who went to a credit union for their first loan)*

"You just have ... people knock on your door, 'Do you want this?' You're, like, 'Yes', you know"
Female, 25-34, home credit customer

When it comes to choosing the actual lender (i.e. which payday loan firm, or which home credit agency), recommendations are the main influence on choice. However, over a quarter (29%) did not make an active choice at all and in effect went with the only option they were aware of or simply don't know why they made their choice (see Figure 14).

Again, there are significant differences by type of credit (see Table 8).

Payday loan customers did not receive family

TABLE 7
Main reasons for choosing type of credit, by credit type

Base: 82 customers whose first loan was high cost credit; (27 payday loan; 34 home credit; 21 rent-to-own).

	Payday loan	Home credit	Rent-to-own
Quick to get cash or product	22%	18%	29%
Easy application process	26%	15%	19%
Only option	30%	21%	5%
Affordable/ convenient repayments	7%	0%	38%
Came to door	0%	26%	0%
Didn't consider other options	19%	9%	5%
Family recommendation	0%	24%	0%
Friend recommendation	4%	15%	5%
Saw adverts/ got direct mail	15%	3%	5%
Other	0%	0%	10%
Don't know	15%	6%	5%

recommendations (0%) and 40% simply did not look around. Those who did compare were more likely to select a lender based on the interest rate offered (24%) or payment terms (12%), or choose from an internet search (16%).

"I had no credit history, at all ... They were the only people who would accept me for the amount that I wanted ... I had no idea about credit unions or any other options, I just knew about payday loans and I knew that it was easy to get one." (Female, 18-24, payday loan customer)

Home credit customers are more likely to rely on family recommendations (32%) or respond to an agent at the door (26%). A local outlet is more likely to be a factor for rent-to-own customers (19%).

"I think it was, sort of a recommendation. Somebody else had had it, I can't remember who. I think it might've been my ex-husband's family." (Female, 45-54, home credit customer)

FIGURE 12
Alternative types of lender considered

Base: 82 customers whose first loan was high cost credit; (27 payday loan; 34 home credit; 21 rent-to-own).

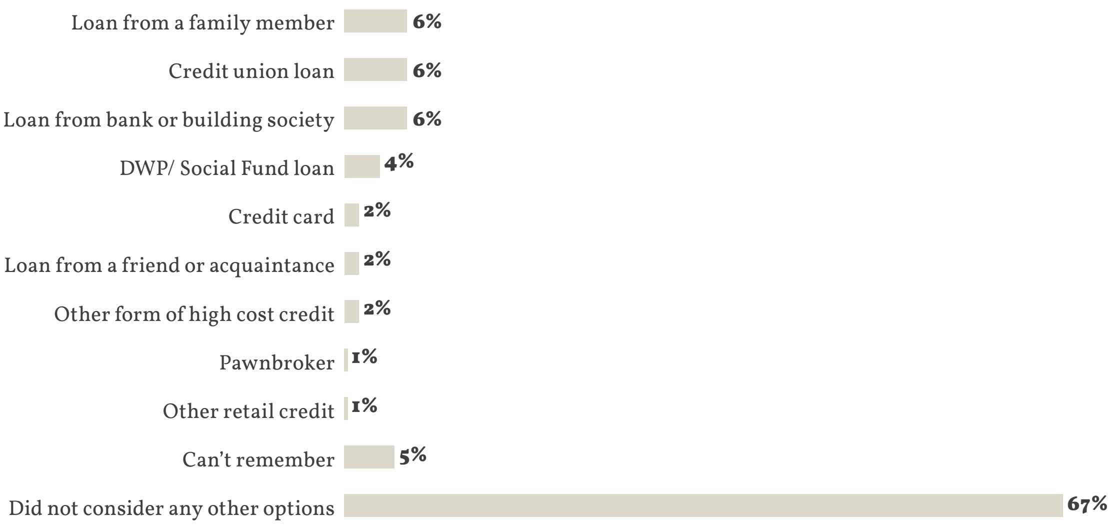


FIGURE 13
Main reasons for choosing type of credit

The symbols at the start of the bars indicate where customers of that type of credit are significantly more likely to have given this as a reason. Base: 82 customers whose first loan was high cost credit. (27 payday loan; 34 home credit; 21 rent-to-own).

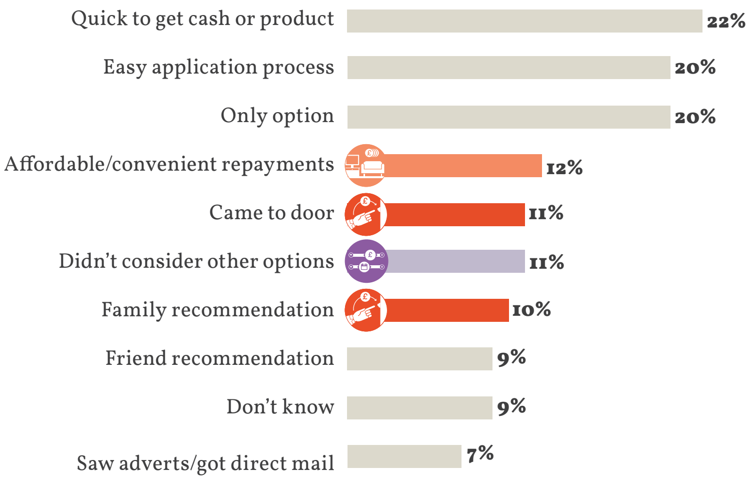


FIGURE 14
Main reasons for choosing specific lender

Base: 77 customers whose first loan was high cost credit and can remember the lender. (25 payday loan; 31 home credit; 21 rent-to-own).

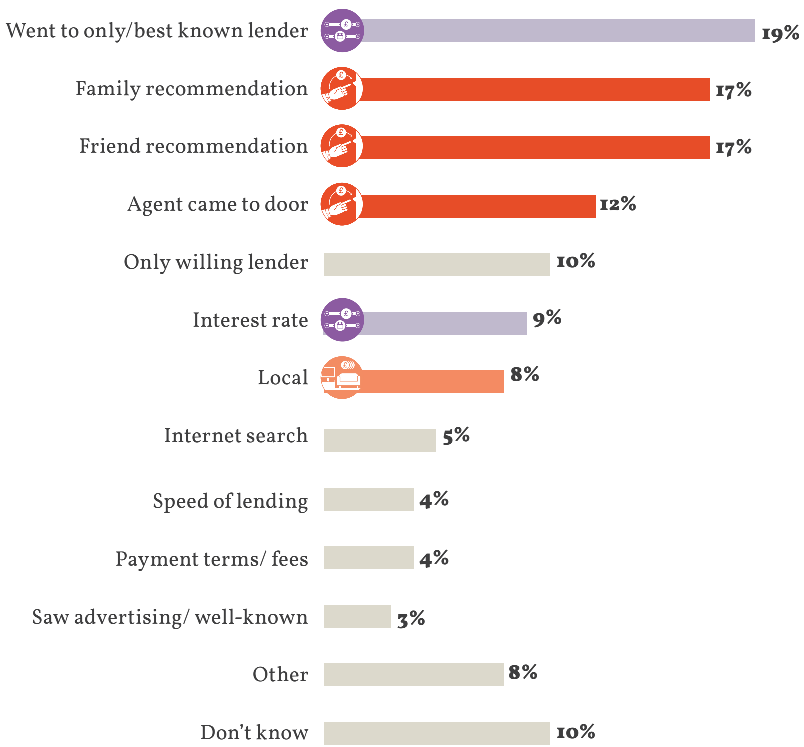


TABLE 8
Main reasons for choosing specific lender, by type of credit

Base: 77 customers whose first loan was high cost credit and can remember the lender. (25 payday loan; 31 home credit; 21 rent-to-own).

	Payday loan	Home credit	Rent-to-own
Only/ best known lender	40%	6%	14%
Family recommendation	0%	32%	14%
Friend recommendation	12%	23%	14%
Agent came to door	4%	26%	0%
Only willing lender	12%	10%	10%
Interest rate	24%	3%	0%
Local	8%	0%	19%
Internet search	16%	0%	0%
Speed of lending	0%	6%	5%
Payment terms/ fees	12%	0%	0%
Saw advertising/ well known	4%	3%	0%
Other	12%	3%	10%
Don't know	8%	3%	24%

patterns of borrowing

Many customers will go on to take out at least one more high cost loan during the course of their life. This is equally true for customers of all types of high cost credit. Half of our sample have taken out more than one loan. Two-thirds (67%) of those who have only had one loan took it out within the last year, and almost all (98%) took it out within the last three years.

Of those who have taken out more than one loan, just over a half (55%) currently have two or more loans in their name. They have, on average, used 4 different types of credit. Just under one-fifth (19%) have only ever used one form of credit, while another fifth (20%) have used six or more types. Among those who have had multiple loans, the overlap between different types of high cost credit is also evident (see Table 9), as well as use of more mainstream credit products such as catalogues and credit cards, or borrowing from friends and family.

Payday loan customers are more likely to have borrowed from mainstream sources such as credit cards, store cards and overdrafts than home credit or rent-to-own customers.

Of these repeat borrowers, two-fifths have been in debt all or most of the time since taking out their first loan (see Figure 15).

"Yes, loans everywhere. I've got so many I just can't even remember them all, but I think it's a habit." (Female, 45-54)

For a quarter, the occasional loan is a useful way of managing brief dips in income or covering for unexpected outgoings. For the majority, however, being continuously in debt or regularly taking out loans is just a way of life. It is a way of making ends meet and funding larger purchases that can then be paid in affordable weekly payments.

TABLE 9
Main types of credit ever used, by type of credit used in the last year

Base: 51 customers who have taken out high cost credit in the last year, and had more than one loan.

	Any high cost credit	Payday loan	Home credit	Rent-to-own
Home credit	55%	38%	100%	46%
Rent-to-own	55%	19%	41%	100%
Payday loan	35%	100%	6%	8%
Family loan	33%	50%	24%	25%
DWP Crisis Loan or Social Fund Loan	33%	13%	41%	46%
Catalogue/ Mail order	29%	31%	24%	33%
Credit card (not repaid immediately)	22%	25%	12%	25%
Friend loan	20%	25%	18%	17%
Authorised overdraft	18%	31%	6%	17%
Unauthorised overdraft	18%	25%	18%	17%
Store cards	16%	31%	6%	13%
Other retail credit	16%	25%	18%	17%
Bank or building society loan	14%	19%	12%	13%
Credit union loan	14%	13%	12%	21%
Pawnbroker	12%	19%	6%	13%
Guarantor loan	6%	13%	-	4%

FIGURE 15
Frequency of loans and credit agreements

Base: 51 customers who have taken out high cost credit in the last 12 months and have had at least one other loan or credit agreement before.

In some instances, particularly with home credit, people have been taking out regular loans for decades, often without any significant problems in making the repayments.

"I've always had doorstep loans ... It's just been constant, really, ever since. Because once you've paid back another one, there's something else comes up, so you need another one and-, I'm still getting it now." (Female, 25-34, home credit customer for 14 years)

For others, patterns of continual borrowing can be more problematic. Some get into temporary difficulties but manage to break the cycle but at the worst end of the scale people slide into a spiral of increasing and unmanageable debt. Multiple loans and credit agreements from a wide range of lenders can leave some with no place to turn and no hope of meeting their commitments.

"It went on for a good five, six months, of having to take one [payday loan], pay it back, have another one, because I didn't have any money. That's how I landed up with [Payday Lender B], then ... To pay off [payday lender A]. So we went skint for a week, paid them off and didn't do one." (Female, 45-54)

> ***"You start off robbing Peter to pay Paul and then you've got no Peter to rob."***
> **Female, 55-64**

VOLUME OF DEBT

The highest amount of money owed at any one time, individually or in joint names, reflects the variation in how many loans people have had and their patterns of borrowing from all sources. Almost two-fifths have never owed more than £1,000, just over one-quarter have owed between £1,000 and £3,000, and a further 10% has owed up to £5,000. The remainder have owed between £5,000 and £20,000 (see Figure 16). Current debts are of a slightly smaller, but broadly similar order of magnitude (see Figure 17).

FIGURE 16
Highest amount ever owed individually or in joint names

Base: 103 customers who have taken out high cost credit in the last 12 months

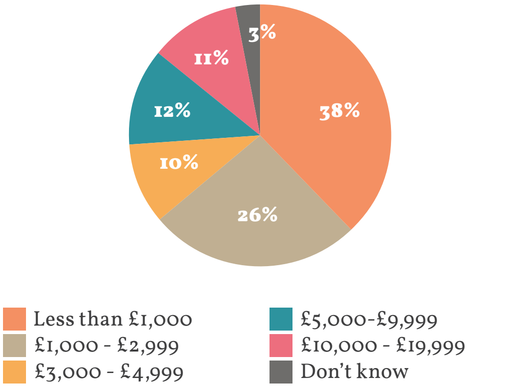
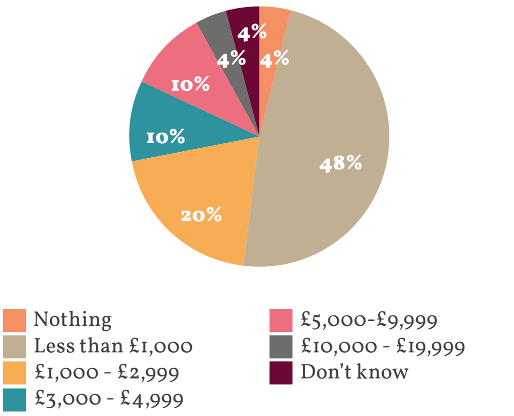


FIGURE 17
Amount currently owed individually or in joint names

Base: 103 customers who have taken out high cost credit in the last 12 months



a world of choice?

The world of consumer credit is, on the surface, one of many and varied choices: secured and unsecured loans from mainstream lenders such as banks, building societies and credit unions; credit cards; unsecured short-term loans from payday lenders, guarantor lenders, home credit providers and high street lenders; secured loans against smaller assets on the high street or online, such as pawnbrokers; cheque-cashing services; retail credit; rent-to-own retailers; and new models of peer lending. Some consumers also have access to credit via the DWP, for example in the form of Budgeting Loans. And that is before you consider the plethora of lenders offering different products within each of these categories.

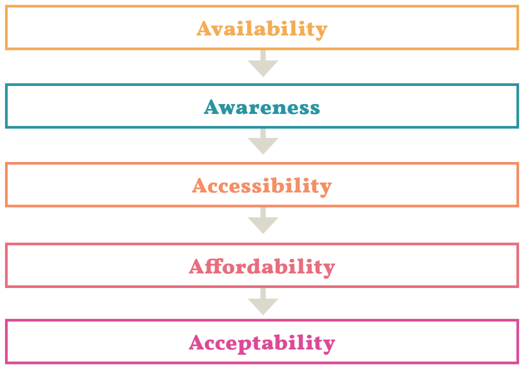
In a 'rational' world, consumers are expected to go through a considered process, evaluating their available options in the market, before making a decision about the products and services they buy. The risks of borrowing would be identified and thought given to how any unexpected difficulties in making payments would be handled.

But people are not 'rational' and life is complex. The low level of consideration of options at the point of decision-making is testament to this. It is well-known that everyone, regardless of their financial or personal circumstances, takes short-cuts in their decision-making or relies on less than impartial advice. Life gets in the way of making good decisions – we are short of time, or have competing demands, and our emotions can shape our actions. We all have biases and heuristics that we rely on subconsciously to help us navigate life, and we differ in our levels of confidence, optimism and self-control.

We are also subject to external influence - influenced by advertising, the views of others, and the way in which different options are presented to us. And finally, our choices are constrained by what the market offers us and our ability to access it. The theoretically 'best option' may simply be out of our reach.

In essence, it is not enough for the market to offer a range of options (see Figure 10). For customers to be able to make the best choice of credit product for them, they must be aware of what is available, it must be accessible to them, and they should consider it to be an affordable and acceptable choice in their circumstances.

FIGURE 18
Key criteria in consumer credit choice



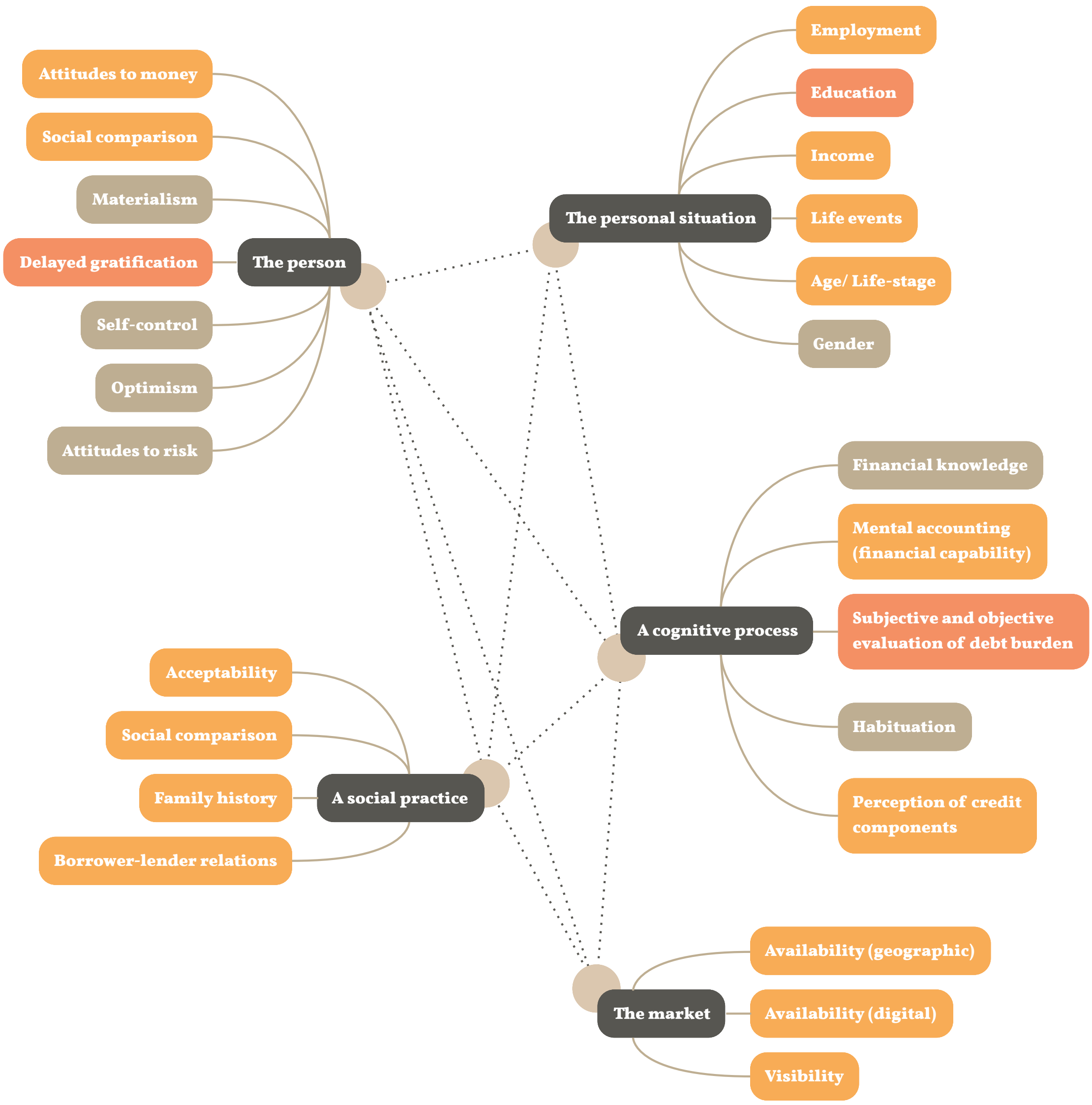
Our research highlights the complex reality of credit decisions but reveals five main factors that shape the choices people make. Our model is an adaptation of one developed by Kamleitner et. al (2012), which considered credit use from four psychological perspectives: credit use as a reflection of the situation; credit use as a reflection of the person; credit use as a cognitive process; and credit use as a social practice.

Our model separates out "the situation" into two separate dimensions – the "personal situation" of the individual using credit, and "the market". The former includes those factors which may 'push' a consumer towards credit, while the latter considers how the market can influence choice through the options it makes available to consumers and their varying degrees of visbility.

Figure 19 illustrates our model. Our research covers all five core perspectives but inevitably is more focused on some.

What this illustration also endeavours to show is the huge complexity and interaction between the different dimensions and their influence on consumer credit choice. It is not easy to disentagle "the person" from their mileu and its "social practices". For example, there is a constant feedback loop between individual attitudes and what is socially acceptable, and this may vary according to the context and situation in which individuals finds themselves.

FIGURE 19
Influences on consumer credit choice



It is not possible to cover all aspects of each dimension in one study.
Those which we have investigated in more detail are highlighted in orange, those which were not a primary objective of study but which arose organically or were touched on lightly are in peach.
Those not covered at all are in beige.

financial capability

Financial capability, sometimes referred to as financial literacy, can be considered as covering the knowledge and skills that someone has which enable them to effectively manage and track their money, plan for the future, choose appropriate financial products and services, and to remain informed about relevant financial issues (FSA, 2006)[1]. The 2015 Financial Capability Strategy for the UK identifies skills and knowledge ('ability') as one of a group of factors that 'may act as barriers or enablers to financially capable behaviour'[2]. Skills and knowledge include activities such as being able to read and interpret a bank statement, and calculate interest on a loan.

Other contributing factors include 'mindset' (an individual's attitudes and motivations) and 'ease and accessibility'. The latter includes someone's confidence in their 'ability to select financial products or services and able to access them digitally or via an offline channel.'[3].

Inevitably, levels of financial capability strongly influence decisions around credit and borrowing. High cost credit products are often cleverly marketed, with product features that closely match consumer needs, and which appear straightforward to obtain and manage. Poor financial literacy can impede a person's ability and confidence to understand the detail of borrowing costs and product terms and conditions, as well as limiting the propensity to 'shop around' or make comparisons.

1. Financial Services Authority (2006) 'Financial Capability in the UK: Establishing a Baseline'
2. Money Advice Service (2015) 'Financial Capability in the UK 2015: Initial results from the 2015 UK Financial Capability Survey'. Pg. 23.
3. Ibid (p. 28)

FINANCIAL LITERACY - INTEREST RATES

A standard test of financial literacy (see Box) shows that there is significant scope for improvement across the Welsh population. Nearly one-quarter of the population answered both questions incorrectly, demonstrating a lack of understanding of both basic and compound interest (see Figure 20).

Test yourself!

Answers at the bottom of the page

1. You have taken out a loan for £100, and the interest rate you are charged is 10 per cent per month. There are no other fees. At this interest rate, **how much money would you owe in total after one month?**

2. And if you didn't pay anything off, at this compound interest rate (10 per cent) **how much would you owe after two months** – again assuming there were no additional fees?

1. £110 2.£121

While a similar proportion of high cost credit customers and non-customers (one half) are only able to calculate simple interest, overall, high cost credit customers are significantly less likely to be able to calculate simple interest (38% cannot, compared to 23% of non-customers). Importantly, when it comes to consumer credit choices, high cost customers are also significantly less likely to be able to calculate compound interest (10% compared to 26%).

"I knew that these sort of percentage things that you pay back are absolutely ridiculous. I sort of knew the basics of what I was getting into, but I didn't fully understand it." (Female, 18-24, payday loan customer)

FIGURE 20
Performance on financial literacy test

Base: Welsh Population – 63 high cost credit customers; 948 non-customers

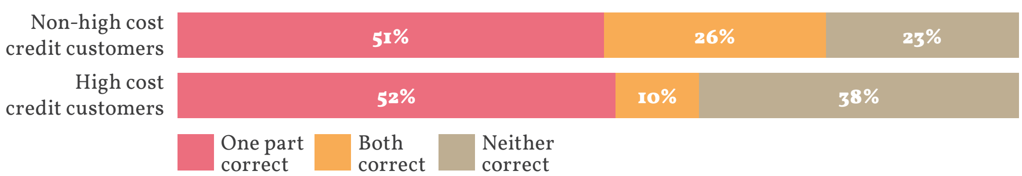


TABLE 10

Differences in performance on financial literacy test by age, socio-economic group, and presence of someone with illness or disability in household

Base: 1,018 nationally representative members of the Welsh Population

	One part correct	Both correct	Neither correct
Age			
16-34	50%	21%	29%
35-54	59%	27%	14%
55+	46%	26%	28%
Gender			
Male	52%	30%	18%
Female	50%	20%	29%
Socio-economic group			
ABC1	50%	35%	15%
C2DE	52%	18%	30%
Household has someone with long-term illness or disability			
Yes	49%	21%	30%
No	52%	27%	21%

Yet because financial capability is about much more than just mathematical ability, we also know that there will be many people whose lack of confidence impedes them from even attempting the calculation of interest. In groups and interviews, when the 'quiz' was included on a sheet with other demographic profiling questions, many people simply panicked, joked about it, and in various ways explained their inability, going on to not even attempt it.

Nonetheless, there are some differences in financial literacy by age (those aged 35-54 perform better than those both older and younger), gender (women do worse than men), socio-economic status (those in groups ABC1 do better than those in groups C2DE), and scores are lower for individuals in households where there is someone with a long-term illness or disability, compared to those where there is not. These are illustrated in Table 10.

The Financial Capability survey is a nationally representative survey of adults aged 18+ living in the UK, conducted by the Money Advice Service in October 2015. Their findings in Wales similarly show that financial capability is too low. They found that similar financial calculations were challenging for a 'sizable minority'[4]. Three in ten could not perform a relatively simple calculation to add interest earned to a savings balance. They also found that one in seven

4. Money Advice Service (2015) 'The Financial Capability Strategy for Wales'. Pg. 12.

FIGURE 21

Proportion of customers answering 'simple interest' question correctly, by type of credit taken out in last 12 months

Base: 103 high cost credit customers - 38 credit union customers; 32 payday loan customers; 39 home credit customers, 43 rent-to-own customers

could not read a bank statement and that people aged 75 and over tended to perform noticeably worse on many of the skills/knowledge questions.

There are also differences in ability to calculate simple interest between customers of different credit types, notwithstanding that there is a small degree of overlap between these groups (see Figure 21). Customers who have borrowed from a credit union in the last 12 months are significantly more likely to have answered the first test question correctly (79%) than those who have taken out a rent-to-own agreement in the last 12 months (51%). There are no differences in ability to calculate compound interest.

There are a number of potential reasons for the better performance of credit union customers. The lower cost of borrowing is a major driver to credit unions and the biggest perceived benefit by customers – engagement with affordable credit providers may both increase financial literacy in technical terms due to better explanations, but also increase confidence in tackling the question as people feel they are making good financial decisions in this regard and so it is within their area of competence.

However, it may also be the reverse – that those with better financial literacy are more likely to identify credit unions as offering a better APR and to understand the potential savings to be made, thus skewing the customer base towards those who are more financially capable from the outset. It is likely that a combination of factors are at play.

Across all groups, low financial capability, or low confidence in their own ability, can impede customers shopping around for the best deal. This is reflected in the fact that the majority of customers focus purely on what is 'affordable' as repayment, be that weekly or a lump sum, without considering the APR. When customers are not fully aware of the true cost of borrowing, they can end up experiencing 'bill shock'.

"He said 'I'll send out your last statement now saying you've paid for it', and it came up saying you've paid this many weeks, total price, but I was like, 'How much?' …The phone actually cost itself £200, and I paid just under £400." (Male, 25-34, rent-to-own customer)

The lack of confidence in comparing product offers and lenders is also exemplified in a common strategy employed by many payday loan customers when choosing their loan. Often the approach is little more than working their way down the top search results for 'payday loan'. Customers progress to the next option on the list either when they are declined credit, if it is too complex to work out whether the repayment is affordable, or sometimes if the application form appears too lengthy or cumbersome.

"I've got to be honest, I tried a couple of them online, do you know what I mean? Just to sort me out. [Payday lender A] was the easiest one, I think. So the application forms kept on going. I thought I'll go to [Payday lender A]. They took it on straight away like that, so they stuck." (Female, 45-54)

"Go on the internet. I tend to type in 'payday loan', whichever comes up first, have a look at them, if they say 'no', go to the next one, and as you go down the interest rate goes higher and higher." (Female, 25-34)

The simple 'slider' tools which enable people to work out what they can borrow based on the affordability of the repayment are crucial in decision-making. Customers like Jim (see Box) may be more likely to pick a product that is less suited to their needs or which is more expensive overall, because of the simplicity in which the total amount repayable is presented.

That is not to say that high cost credit customers aren't aware that home credit, rent-to-own and payday loan products are more expensive than many alternatives or that they will face a high bill or overall total cost. The vast majority of customers, even if they struggle with concepts such as interest rates and APR, are clear that their chosen option is 'high cost', particularly in light of the publicity around it. Most are resigned to it, with some actively choosing to remain ignorant of the exact details.

"Yes you could see the APR was a bit high, but you don't actually realise until you're actually paying."
Male, 45-54

"All you've got to do is sign the signature here. You don't give him any money, and he's going to let you walk out with it. Well, I'm going to do it. Yes, it's going to cost me so much next month, but next month's a year away." (Male, 65-74, rent-to-own customer)

Jim

"They were very easily explained … Pick your number of days, is it four days, five days, a week, two weeks? Then there's a little sliding scale that, as you tell them how long you want the loan for, it kind of tells you how much it'll be, how much you'll pay back, so you can see straight away. Whereas you would take out a loan with a bank and they would say, 'It's over three years and you're paying back 8%,' and it's hard to work out … but it's great on their websites … Whenever I, it doesn't matter if I write my expenses, if I add them on paper or do it on a calculator, I've still got to do it three times and I always get three different totals … Yes, I like the websites. All of them tend to be very clear and just say, 'Look, tell us how long you want it for, tell us how much you want, and this is how much you'll pay back'."

MONEY MANAGEMENT STRATEGIES

Although many high cost credit customers perform poorly on the standard test of financial literacy relating to interest rates, this does not mean that they necessarily demonstrate poor financial capability in every respect.

Tight incomes mean that many high cost credit customers budget to the last penny and closely track their income and outgoings. Most people have a clear hierarchy of priorities for their expenditure, focused on the essentials of ensuring a roof over their heads, feeding and clothing children, and then priority bills such as gas and electricity. The prioritisation of other bills and expenditure will sometimes depend on who is chasing hardest for payment. Loan repayments can often be relatively high in the overall consideration as if the customer loses access to that line of credit, they know that they will face difficulties in the future.

"A lot of it is, do you pay that debt, or do you put a meal on the table for your kids? Which one's going to take preference? ... You get to the point where you think, that's a debt. What are they going to do? Are they going to kill me? Drown me? But if I don't feed my kids? ... they are going to take preference every time." (Female, 35-44)

Necessity also drives a significant group of people to develop creative money management solutions (summarised in Figure 22). Often, those who are some of the most capable and effective money managers have learned through experiences of substantial debt and are actively seeking to turn their situation around.

These money management strategies broadly share a set of common features:

- Affordable
- Easy and convenient
- Remove temptation from reach
- Increase sense of control and confidence
- Do not require significant financial literacy

Jam jar money management

At its simplest, many people are using variations on 'jam jars' to put money aside to cover different costs, such as Christmas or to pay for a wedding, or to try and build a small 'rainy day fund'. Approaches range from traditional piggy banks, to formal savings accounts.

> ***"I have two savings accounts. So one of them is the total emergency pot and the other one is for Christmas and things I might need."***
> **Male, 45-54**

"The credit union would have, you know, you have a pot, you see but my pot has always been for something specific. It's not like a rainy day pot." (Female, 45-54)

One of the challenges some customers find is how to avoid dipping into these funds when they have a difficult week, so strategies to limit this are also used. For example, some customers use their pay-as-you-view boxes as a way to save money. Through putting extra money in, it is kept out of reach until the agent comes to empty it, when they then give the customer a rebate. This makes it easier to achieve more substantial savings sums.

"If you put too much in [the pay-as-you-view meter] you can't get it back until he comes to empty it ... I've got money jars, I put pennies in there or whatever, and I land up using them, because it's so easy just to take the lid off and take them, so that way you can't." (Female, 45-54)

"My husband's good at saving but I'm good at spending it. We've got a wedding to pay for next year so we have to save. And from next year I'm going to be worrying and panicking and putting more pressure on him cos I haven't saved ... [but he does save], you know where you've got a savings book. And you've got to take it to the bank. And you haven't got a card so you can't take it out the wall when you need it. They're not open at night and they're not open at the weekend, so that's a good way." (Female, 35-44).

Allocating lines of credit or income streams

Many have a preference to have certain credit lines allocated for certain expenses, which helps them to stay on top of their loans and spending and ensures they have enough for the things they need and want. It is particularly common among home credit and credit union customers to reserve one loan for Christmas and the other for summer holidays. Sarah, for example, gets a credit union loan every year to cover Christmas. She puts away £5 a week and now she doesn't worry about Christmas. "I love Christmas now, I do, yes". This means that if an unexpected cost comes up during the year, an alternative line of credit is required.

FIGURE 22
Common strategies used for money management

Jam jar money	Allocating credit lines	Friend & family	Limiting temptation	Sharing & recycling	Lifestyle overhaul

"Credit union I use for my son's birthday and for Christmas; Moneyline's just there if I come into an emergency throughout the year." (Female, 35-44)

"[Rent-to-own] is obviously ongoing and then when Christmas is coming I think I'll get this that and the other and then add it on. But then [home credit] is only if I'm desperate. I think 'oh I'll just a couple of hundred quid for Christmas or holiday or whatever'." (Female, 45-54)

"With me, for Christmas, I've got two options. The credit union if I haven't used or had any loans through the year, unnecessarily, and there's extra funds there, I'll take it out at Christmas. Failing that, usually March, April I'm planning for Christmas, so if I can't use the union, I'll go with Park Catalogue, Park Festive, you pay into, so, if you miss a week it just means, come the end of the X amount of weeks you're saving with them, you're that £10 payment less. So if you want to save £500 and you miss, I don't know, five weeks, you're £50 short at the end of that period. But I only choose those two now." (Female, 25-34)

Some others find that allocating different benefits/ income streams for different things can help to save for specific items or events. This is particularly common with benefits linked to children, where the income is used to pay for a loan that funds Christmas presents or taking children out during school holidays, or other activities which are for their benefit.

"My Child Benefit pays my loan because it's for the kids."
Female, 35-44

"£75 a week I pay on my loan, but that's my choice... I get DLA for my child, that pays it." (Female, 35-44)

"I only get Child Tax Credits. I think it's £157. My Child Benefit a week, I don't get that. That's paying my Credit Union loan." (Female, 18-24)

Friends and family

Family and friends can sometimes play and important and supportive role in enabling people to better manage their money on a daily basis. This can include helping to manage bills or looking after certain 'pots' of money such as savings. Some have certain benefits paid into their parental bank account and then have their direct debits go out of there.

"I usually just give it [savings] to my Mum to put away."
Female, 25-34

"My mum gets my child benefit going to her bank, and my phone, my car insurance comes out of her bank...she takes control of paying my phone and car insurance, because she knows she's always got money in her bank." (Female, 25-34)

Reasons for using family and friends to support with money management are varied. One reason is that they are more likely to have the funds readily available, thus enabling the strategic avoidance of bank charges and penalties. For others it is more related to a lack of confidence in one's own ability to manage money. Anna (see Box) is a classic example of this.

Many parents also feel a responsibility to educate their children in the hope that they will avoid the pitfalls that they experienced. This is often not just a case of cautionary tales but through actively trying to teach their children to budget or save. Sometimes this has become a family activity and parents and children are learning to manage their money better, together.

"I just learnt basic silly little things like, sitting in the house and having a sandwich and crisps for their dinner rather than going out. Not buying them when they say in the shop, 'Mum I want that'. I thought, 'No. They're only going to learn how to budget money from me and their dad. If they see us constantly spending, spending, spending on whatever we want, that's just going to make it worse as they're growing older because they're going to think then, 'Well you get everything you want so why can't I?'" (Female, 45-54)

"I push them to understand that everything's got a value, and if they want something, I'll go and give them their pocket money and say, 'It goes in your jar, and when you've got enough money in there, out of your pocket money, then you can go and buy your thing.' So I suppose I'm glad that I made

Anna (see case study in Appendix for more detail)

In general Anna would prefer for her money to be managed by someone else: "I just need a bit of help with sorting things out." Anna was constantly putting off paying her television license and using the money for other things. Eventually, her friend offered to take over making her payments every week and Anna will just pay her back. She says: "That's handy. I can do that, because I know. I'll say, 'There's your money I owe you this week,' and I'll do it." She trusts and values her friend and sees her regularly, so knows she will remember to pay her, and thus her television licence as well. Anna also doesn't trust herself to make her priority payments and is worried about the introduction of Universal Credit, so has recently put another strategy in place: "She's just opened her bank account. So what I'm going to do, because she's excellent…what I will do is have my rent transferred in her bank, and then she'll pay the rent, because if it was in my bank, I would spend it."

a mess of it when I did it, because now I know to teach them that that's not the way to go about things." (Male, 25-34)

Limiting temptation

Such handing of control over to family and friends is one mechanism used in order to limit temptation. Other ways in which people aim to limit temptation, include savings accounts with a notice period, or using rent-to-own and voucher schemes (including those offered by home credit) rather than borrowing cash, as it guarantees the money is spent only on the intended product and it is "harder to fritter the money away".

"The Post Office used to do a savings thing, where you put the money in and you need to give 28 days' notice to withdraw money ... I would like the bank to do something like that." (Male, 45-54)

"The vouchers are better because there are only certain things you can spend them vouchers on ... Then I know it's going to get used for the purpose why I've got it, rather than cash." (Female, 45-54)

"What I do as well is, there's a shop round there that you get uniforms from, I pay every week a couple of quid away, so when it comes to the uniforms I don't worry ... I was on my arse one September, and I was like, you know, I think it was the first year they were all in school, so it was a lot of money ... and then the woman said, you know, 'Did you know you can put money aside, it's not in the window or anything.' I was like, 'Can you?' and that's what I've done ever since." (Female, 35-44)

Another strategy used is to limit the amount of cash available as soon as money comes in. Using Direct Debits to pay bills automatically means that it is harder to spend cash and subsequently get into debt or miss payments. Others simply draw the cash they can afford and try to constrain their spending to that amount. Ben, for example, will take out the remaining cash, after all his payments are taken from his account, and keep it in his wallet, so he knows how much he's got to spend. Although he now believes he largely lives within his means, this hasn't always been the case and it is a strategy he has developed after his experience of being in large amounts of debt.

"I try to organise it so that my direct debits go out soon after my money comes in, a few days later, because then I don't get chance to get money out...If the money's in the bank, you've actually got to positively go somewhere, to a hole in the wall somewhere, to draw the cash out...cash in your hand goes on cups of coffee and newspapers and whatever, you know it just goes." (Male, 65-74)

"I'm terrible for spending a lot in the supermarket so I just take a tenner to the supermarket so I can't spend anymore."
Female, 25-34

"When I get paid, when all the money goes out for my bills, I'll take out £200-£300 and put it into that account [savings] and then I'd still know I've got that money to live on for the rest of the month ... this is something I never used to do. I used to kind of just spend and sometimes find myself short at the end of the month." (Male, 45-54)

Sharing and recycling

Saving money through sharing and recycling schemes is not particularly common, although more so in some communities than others. Often people express a preference for new goods, particularly with regard to white goods and consumer electronics. Nonetheless, some, especially those who have had negative experiences of borrowing or accumulated significant debt in the past, are more open to it.

"I don't mind having the beds, sofa all that. But when it comes to electrical I think it'll last three months and you've got no guarantee. I'd rather get [home credit] loan and buy a brand new one with a 12 month guarantee." (Female, 35-44)

"I don't want stuff that's been used, I want brand new stuff ... Obviously I want brand new stuff knowing it's not going to be broke or be something wrong with it ... I'm not going to be able to find God knows how much for a TV or God knows how much for a sofa. I know you can get it second-hand but I don't want to risk second-hand. You don't know where it's been or anything." (Female, 18-24)

"The washing machine that we've got now, we got that second-hand, and like I say, it's really nice. We only paid £70 for it, so-, I'm not a snob, do you know what I mean? I know where my place is financially, so I've got no qualms about buying second-hand and stuff like that. I'd rather buy second-hand than walk around stinking." (Male, 25-34)

Where people do make use of second-hand goods, online sites like Freecycle and Ebay are popular to buy goods cheaply, as well as Facebook groups that are area specific. This will not necessarily be a solution for those who are digitally excluded, therefore high street charity shops and refurbished goods shops are also an option, although awareness of these can be low, and perceptions mixed.

"I think [the second-hand shop] do charge a bit too much for stuff they've been given. I think it's a bit cheeky to be charging £100 for a fridge." (Female, 45-54)

Alwen

When she moved house, Alwen decided to make a fresh start:
"I didn't want to carry on with people knocking on the door and letters coming through the door and all that kind of stuff … I save money now. I put a little bit aside every week so I've got a little fund for the summer … [and when I needed a sofa] I did look into everything. I did ask about refurbished ones and what it covered and everything first before I signed anything. So, I mean, I think a lot more now about what I'm doing money-wise than I did back then … And I do a lot of shopping on Facebook though, to be honest. When it comes clothes-wise for the kids and that."

Items for children are some of the most popular to buy second-hand, as they are seen as having a short-life or only being needed for a short period.

> ***"Everybody sells their stuff on Facebook really. There are loads of pages where people want to swap things, or they'll sell their things, so-, that's where we got our washing machine from."***
> **Male, 25-34**

"I do a lot of shopping on Facebook though, to be honest. When it comes clothes-wise for the kids and that. You know, because they grow so quick and especially during the summer, they're out and they just get wet or dirty or whatever … you know, you pay, like, three quid for five pairs of shorts or something for the kids. You can't go wrong at that price, can you?" (Female, 35-44)

Lifestyle overhaul

There are a few examples of those who have accrued significant levels of debt or faced major financial problems in the past and who have undergone a lifestyle overhaul and a complete turnaround in the way they manage their money. This is often enabled through improving financial capability by following the guidance of advice services or by teaching themselves. They often employ several or all of the strategies identified in this section simultaneously and show high levels commitment to starting to live (more) within their means and reducing their reliance on credit.

attitudes to borrowing and saving

We know that attitudes are formed and shaped by a wide variety of influences – the things we experience and observe in everyday life, the social norms and habits around us, and by the things we see and hear in the media or the communications which target us. In turn, attitudes help to shape behaviour, but we also know that in reality people do not always behave as their stated attitudes might predict.

Among high cost credit customers, it is clear that attitudes to borrowing, debt and saving do not always align with behaviour and that there are other important influences on decision-making as well. Nonetheless, the way in which people consider borrowing and saving is important for understanding the role these do play in making choices and where there are opportunities to support people to make alternative choices in the future.

BORROWING

The majority of high cost credit customers and non-customers disagree with the idea that “there is no excuse for borrowing money” (see Figure 23). Indeed, only 18% of non-customers and 8% of high cost credit customers actively agree with this statement. Nonetheless, high cost credit customers are significantly more likely to disagree, reflecting the genuine need which drives the majority of borrowing.

Similarly, the majority of high cost credit customers and non-customers agree that it is “okay to be in debt if you can pay it off”, although the difference between the levels of agreement is not significant in this instance (see Figure 24). An acceptance of the need for borrowing, however, does not typically translate into being comfortable with having to borrow or being in debt.

“I think nowadays you have to. Your wages aren’t enough if you are working.” (Female, 45-54)

“It’s not nice, you know, having to borrow money. It’s like a literal failure anyway, so it’s not nice. So you’re always, kind of, a bit nervous, and you’re always a bit worried.” (Male, 45-54)

To be honest, I don’t like debt but this is the only way I’ve had to manage … I don’t want debt, I hate debt … When I say ‘debt’, I’ve always stayed with [home credit lender] and that’s the only debt, what I call ‘debt’.” (Female, 65-74)

FIGURE 23
Disagreement with the statement “There is no excuse for borrowing money”

Base: Welsh Population – 63 high cost credit customers; 948 non-customers

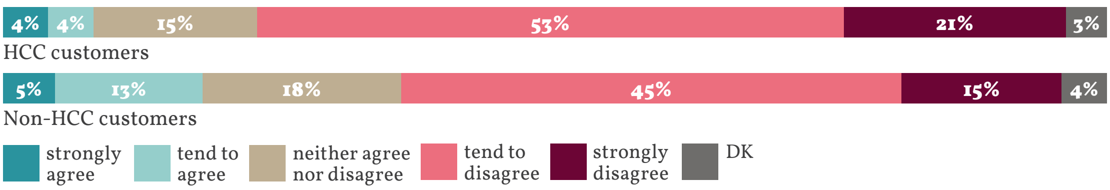
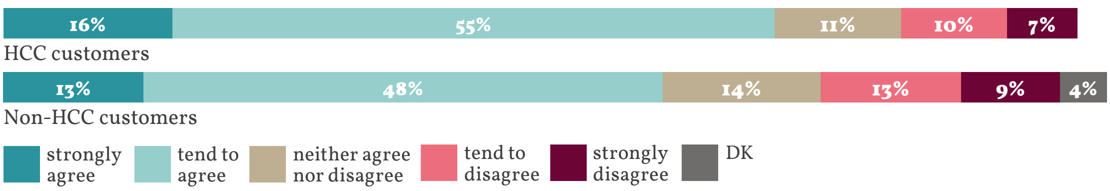


FIGURE 24
Agreement with the statement “It is okay to be in debt if you can pay it off”

Base: Welsh Population – 63 high cost credit customers; 948 non-customers



The broad acceptance of borrowing as a necessary part of life is, however, tempered by a belief that access to credit is often still too easy. A recurring theme, many high cost credit users talk about how they find it "hard to say no" if offered a loan and that they lack willpower in the face of temptation, "because there is always something you need". These internal conflicts are often closely linked to the ideas of what is socially normal and acceptable as reasons for borrowing money.

In recognising their own tendency to say yes, some are inclined to berate themselves for their perceived weakness, or consider it a personal failing. Others are more pragmatic and feel that the pressures they face to provide for their families mean that there is a degree of inevitability in taking out the loan.

"They would have offered me more money than I wanted and I would have just said, 'Yes,' like the numpty I am." (Male, 35-44)

"It's so tempting, when your friend's just had something new and you think, 'I could do with a new...' In the end it's greed, at the end of the day." (Female, 25-34)

"When you've got Christmas coming up and they're basically waving it in your face. And you've got four little kids you've got to get presents for, it's hard. You're not gonna turn them away are you? You want to. You don't want to have the loan. You'd rather not have the loan but you need it." (Female, 35-44)

"People take the fact that they've got a fridge and a washing machine and a cooker for granted ... a lot of people, if you don't live on the benefit line, you take for granted having that cooker or washing machine .... You try living without it for six weeks. And then somebody comes and knocks on your door and says you can have £200 in two days." (Female, 35-44)

As well as looking to themselves, high cost credit customers also feel that lenders play a major role in encouraging people to borrow, playing on the fact that people find it hard to turn down offers of credit.

"They probably should've held off from saying, 'Have, have, have'. Like I said, it's quite hard when you're, like, 20, 21 and you've got two kids and people are saying. 'Have, have, have'. You always want your kids to have the best, don't you? So I don't think I actually needed it, just because it was there." (Female, 45-54).

At the same time, there is an almost universal perception among high cost credit customers that access to credit is too easy. People do not wish to have their access to credit cut off, but feel that the checks and limits on borrowing could be tightened to reduce the number of people who find themselves in serious problems. These views are particularly strongly espoused by those who have experienced high levels of debt, or been trapped in cycles of borrowing. They are inclined to look back on their experience and identify times when they feel credit shouldn't have been extended to them, sometimes including the first loan or credit agreement they took out.

"That's the same with my sister. She turned 18, you just get letters through the post don't you, like 'here's a credit card, you can have this amount and all the rest of it'. She racked up thousands of pounds. She's probably still paying it off now ... you just get offered free money, you want to go out, you wear new clothes, and have your new phones and all the rest of it. It's too easy." (Female, 25-34)

It is also particularly associated with the idea of the "folly of youth" and many look back with regret at decisions made when they were young and believe it was too easy to obtain credit. Sometimes people feel that they should not have borrowed at all, but for the majority it is often that they would have liked to make more informed decisions about where to borrow from, or better understood the implications if they failed to make repayments on time.

This view is not restricted to high cost lenders as many have also had personal experience or known of other people who have had problems with mainstream lenders.

"They don't really do that many credit checks. It's like 'what do you do?', 'what do you want to do with it?', 'ok, that's fine, here's your money'. Especially [Payday Lender A] as well." (Male, 18-24)

"I think [the bank] weren't strict enough at all, because I wouldn't have given me money when they gave me money, just because of my age. They didn't look into any of my personal circumstances ... Sign on the dotted line and, "Kerching!" (Male, 25-34)

Aisha

Aisha is 19 and studying at college. She moved out of home just over a year ago and has a part-time bar job. She took out her first loan to pay her rent deposit and buy some things for her flat. The temptation of easy access to credit, along with an inability to make ends meet on her income, meant she quickly spiralled into debt. Buying a new car was the final straw. "That was ridiculous ... £150 a month plus my insurance was £168 ... I was an easy sale. There was no way I was going to be able to make those payments at the age of 18. It was unrealistic."

Unable to cope, she stopped repaying. "I got so many loans and credit cards and debt everywhere that I don't even know where to start to pay them back ... I can't even get a debit card. That's as blacklisted as it gets."

Today Aisha is almost £50,000 in debt and feeling the stress of constantly being chased for payments and in fear of the bailiffs. She has an appointment with an advice agency but is clear that for other young people the key "to catch it before it happens really."

ATTITUDES TO SAVING

One route to avoiding credit and debt is to save for items before purchasing them. Clearly there are very few people from any walk of life for whom this is always the answer. Buying a home typically requires a mortgage and we live in a society which enables people to spread the cost of cars, home furnishings and other consumer goods by purchasing 'on finance'.

However, high cost credit customers hold low levels of savings and most would have difficulty in raising even £200-300. This means that purchasing even a relatively inexpensive item like a new fridge is beyond most without borrowing. Indeed saving is often not even a consideration.

"We don't save anything. Like I say, we manage to pay all our bills, but then we have quite a tight budget with our living costs. So nothing gets saved, really." (Male, 25-34)

"I've got a savings account, but there's, like, 1p in it."
Female, 35-44

The savings challenge faced by high cost credit customers is reflected in the fact that they are far less likely than non-customers to agree that "you should always save up first before buying something" (see Figure 25).

The perceived difficulty in saving even small amounts is also reflected in the attitudes of some consumers towards credit unions, which often suffer from the misconception that it is necessary to save for a period (sometimes months) before you are able to take out a loan. The anticipated requirement to save acts as a deterrent and deters some people from approaching a credit union about a loan.

As with borrowing attitudes and behaviour, there are clear disconnects when it comes to saving. Some are particularly determined that in the future they will save up for some of the things they need to reduce the amount they need to borrow.

"Now, I tend to save up for things more. If my TV broke, I'd probably get a small, cheap one in to start and save up then, you know, a few hundred quid a month until I got the HD." (Male, 45-54)

"There are things that I desperately want, there's a perfume that's £125, and it's amazing. You know, it's £125. I'm going to save up for as long as I can and then once I've got that £125, if I feel like spending it on a perfume, I will, if not then I will just keep it." (Female, 18-24)

Yet even those who subscribe to this view in principle will often find it hard to adhere to in practice. Unexpected expenses can quickly drain a small savings pot.

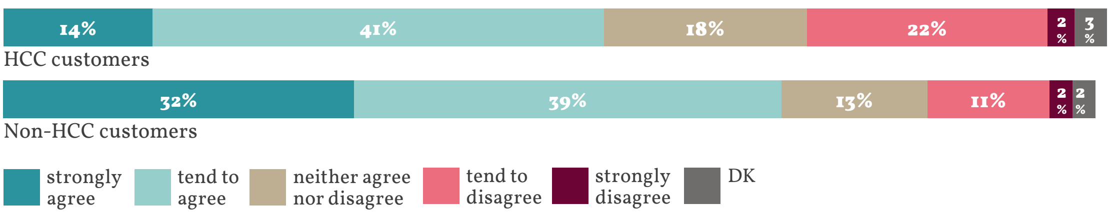
"I do but then these kids pop up and then you're like, 'Shit, they need something. Alright, let's just take it out the savings. If I haven't got it then go without or save up and when I've got enough money, then go and get it. It's good enough saying that, with the kids, though, it's different when you've got kids." (Male, 35-44)

"I did the savings at the beginning but you know when you've got gas, electric, you're 'ooh I've got £15 I'll take that' and then I'm down £15 from the saving, but it is really good ... You think you'll put it back the next week, but next week never comes." (Female, 35-44)

Far more common than saving for large items such as new white goods or furniture is a habit of micro-savings to pay for small items of expenditure such as days out with children, socialising, or towards the cost of Christmas.

FIGURE 25
Agreement with the statement "You should always save up first before buying something"

Base: Welsh Population – 63 high cost credit customers; 948 non-customers



People have a number of ways in doing this, from informal self-devised solutions, to the use of specialist savings schemes such as Christmas Clubs, or in savings accounts offered by lenders.

Informal self-devised solutions
(e.g. traditional piggy bank, saving with family and friends, over-paying into pay-as-you-view boxes to get the rebate later)

Using formal savings accounts
(most common with those who borrow from Credit Unions or Moneyline)

Using specialist savings schemes
(e.g. Christmas Clubs)

Using a savings account offered by lenders

Informal solutions include traditional piggy bank type options, saving money with family and friends, and even over-paying into pay-as-you-view boxes in order to obtain the rebate later on.

"The only time I save really now is when I go to skittles on a Tuesday. You pay subs, you have that back at the end of the season which is every April or May time ... So if you only put about £10 a month maybe, that's not a lot, but it's still £90 then." (Female, 35-44)

"I've got those tins which you've got to open with a tin opener, which you can't get in until you open with a tin opener. You know, so now and again if I've got pound coins, I'll put them in, and you know you can't get them back then, where with a piggy bank you just pull them out and get your pounds back. Yes, that's what I did just before holiday ... there was about £70 in there." (Female, 25-34)

"You go to Tescos and get saving stamps for a pound a time. I do put the odd couple of bob, say three stamps a week away, or two a week, whatever I can afford ... so I've got the money there, for food and stuff, if I need it." (Female, 65-74)

The use of formal savings accounts is most common with those who borrow from Credit Unions or Moneyline, both of which actively encourage and support customers to save. For many customers, switching to this type of lender is the first time they have managed to save regularly for many years, or ever. The level of savings typically remains low but customers are typically extremely positive about the habit they are building and that in small emergencies they have a buffer to fall back on. A few parents do not feel able to save for their own needs but are committed to saving a small amount on a regular basis for their children's' future.

"I've always earned £100 more than I've ever had, because it's always gone into a pot, and the credit union save it for you ... straight out of my wages. Now we take £600 out in the summer for holidays, £600 out for Christmas." (Female, 45-54)

"I did have a loan, but then I finished that off, but I still do the savings scheme, so I've got money going into that every week ... for whatever comes up. I just plough any spare money into it." (Female, 45-54)

"Both of the kids have got an account with a credit union ... Whenever I'm passing, you know, I just put a couple of pounds in each, but it's one that they can't touch until they're older." (Female, 25-34)

Pat and John

They are in their late 50s with two teenage children. For many years they used home credit to help make ends meet or cover unexpected costs like car repairs. A couple of years ago they began to use Moneyline instead and also started to save a small amount each week. They recently recouped the benefits of this habit. "We had an unexpected funeral didn't we? And he needed a suit for the funeral and we were like 'where the hell are we going to get the money from for this suit?' So we went down and we had enough that we could get you a suit didn't we?"

borrowing is a social norm

The majority of users of high cost credit are living in communities where families, friends and neighbours borrow money on a regular basis. In many towns and villages everyone knows the local home credit agent, and high streets offer multiple options in the form of pawnbrokers, money shops and rent-to-own stores. People's attitudes and beliefs are inevitably subject to social influence and debt is perceived as being a normal and unavoidable part of everyday life.

To some extent this is true of everyone. Almost all (93%) high cost credit customers agree that "debt is a normal part of today's lifestyle (see Figure 26). This is significantly more than non-customers, but even among this group, four-fifths (81%) agree.

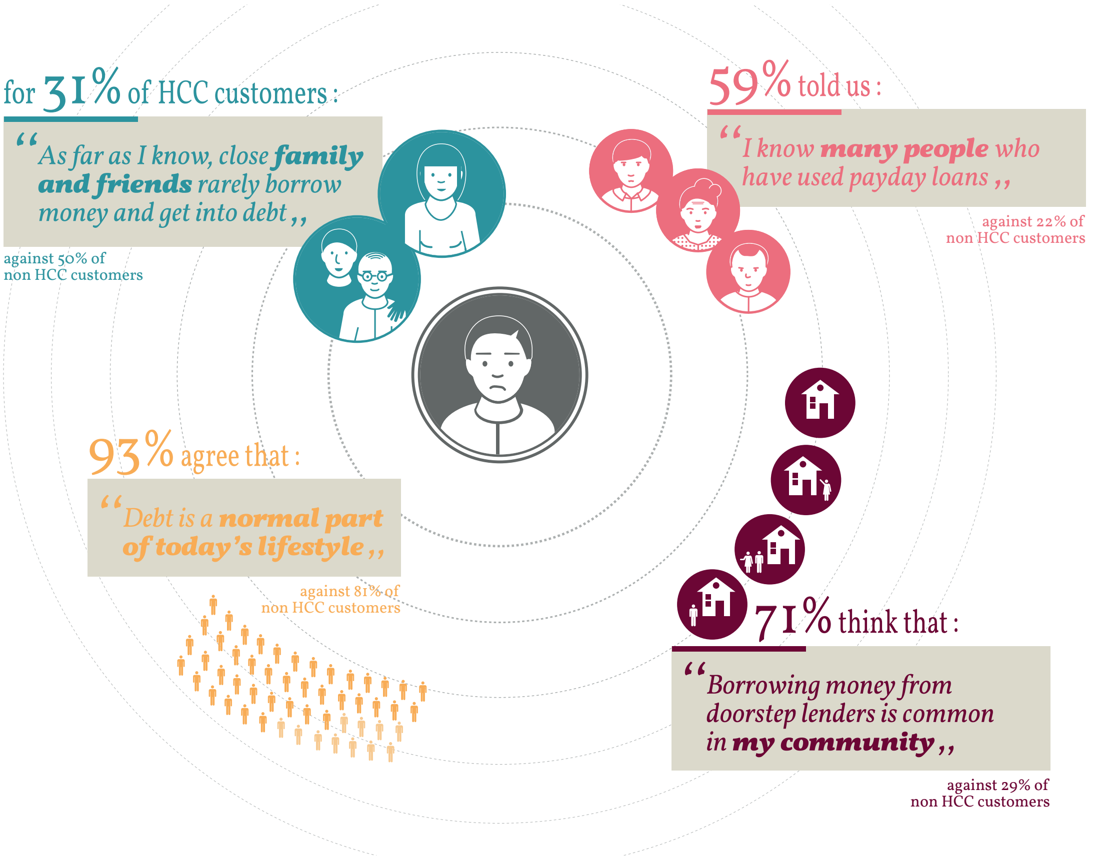
This is true across Wales, regardless of socio-economic group. Those aged 35-54 are slightly more likely to agree (87%) than those younger (79% of those aged 16-24) or older (80% of those aged 55 or over)[1] and is a reflection of a society largely dependent on consumer credit.

Home credit in particular has been a part of life in some communities for many decades. In some instances, children and grandchildren are using the same agent as their mother or grandmother before them. Almost three-quarters (71%) of high cost credit customers believe that "borrowing from

1. *Base: Welsh population – 298 aged 16-34; 332 aged 35-54; 388 aged 55+*

FIGURE 26
Indicators of borrowing as a social norm

Base: Welsh Population – 63 high cost credit customers; 948 non-customers



doorstep lenders is common in my community", compared to 29% of non-customers (see Figure 26). Agreement with this is greater among those in socio-economic groups C2DE, job-seekers, and those in social housing at the overall population level (see Table 11).

TABLE 11
Agreement that "borrowing from doorstep lenders is common in my community"

Base: Welsh Population – 63 high cost credit customers; 948 non-customers

	Welsh population
Socio-economic group	
ABC1	20%
C2DE	41%
Employment status	
Job-seekers	52%
Other non-working	31%
Full-time	32%
Part-time	26%
Students	27%
Tenure	
Social housing	47%
Private rented	45%
Owner-occupied	20%

Among high cost credit customers, it is also more common among those in social housing (83%) than those who rent privately (57%)[2]. This almost certainly reflects the way in which agents focus their efforts on specific areas in towns and villages, and the importance of personal referrals.

"There are a good few in this street who have Home Credit any rate, and we all know near enough what time she's coming. If we miss her on a Thursday, half-past one, two o'clock, she'll call on a Friday, Friday evening and if I miss her on a Friday, she'll call on a Monday."
Female, 65-74

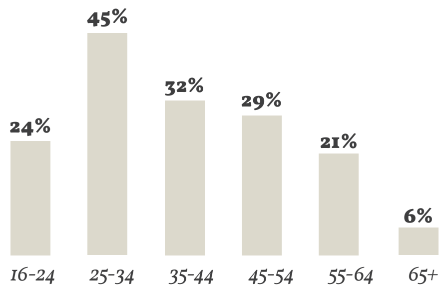
Patterns of borrowing and money management strategies are passed down through generations. People also witness and learn from the behaviour of friends and other family members. It connects to the ideas of 'social learning' and 'social contagion'. At its simplest, that is to say that people observe behaviour and its consequences in other members of their social network, and this feeds in to their own behaviour, attitudes and beliefs. There is a progressive mutual reinforcement of ideas and behaviours among social groups.

As with home credit, it is also possible to see how people's networks include many others who use payday loans, or are in debt. Over half (59%) of high cost credit customers "know many people who have used payday loans", compared to 22% of non-customers (see Figure 26). Across the total population, use of payday loans among acquaintances is strongly related to age, peaking at those in the 25-34 group (45%) and declining to just 6% in the over 65s (see Figure 27).

"Where I work you see people take paydays every single month, one after another." (Female, 18-24)

FIGURE 27
Agreement that "I know many people who have used payday loans", by age

Base: Welsh Population – 1,018



When it comes to experiences of debt among family and friends a similar picture emerges. Only one-third (31%) of high cost credit customers think that "as far as I know, close family and friends rarely get into debt", compared to half (50%) of non-customers.

"My mother uses all of them. That's why I don't go to her for money! She uses [rent-to-own] for all of the appliances. My sister does as well. And they live off paydays between wages." (Female, 18-24)

The visibility of borrowing, especially if in the form of new household goods or home furnishings increases the perception that it is a common and normal practice. Seeing a new sofa or television in a friend's house taps into people's natural tendency for social comparison and desire to belong.

"And it's so tempting, when you're friend's just had something new and you think, 'I could do with a new..."
[Female, 35-44]

But people also feel social pressure from outside their immediate social circles. Like parents everywhere, people want their children to have the best and to avoid the stigma of "going without". Christmas and birthdays are highlighted as particularly expensive times of year but there are also the ongoing costs of clothing, and school uniforms and trips. These costs are often triggers to borrowing or lead people to miss payments on other bills to cover the spike in outgoings.

2. *Base: Customers who had taken out high cost credit in the previous 12 months – 54 in social housing; 37 private rental*

"When he started high school, school uniform. It just sort of zoomed up in price. You know, you're talking over £100 just for his PE kit so, you know, that first initial year!" (Female, 25-34)

"It's peer pressure, isn't it? I never had anything like that when I was a kid. You know, it's, like, all these named trainers and stuff. I didn't have them, but my kids have them because, otherwise, they will be bullied." (Female, 35-44)

"I don't pay the TV License sometimes. You know, if I've got a school trip to pay for, I won't pay it this week." (Female, 35-44)

"Going without" is also highly subjective. People naturally differ in their views of what is or isn't essential but as reflected in their attitudes to borrowing and saving, this does not mean that the majority of people are borrowing to fund a luxury lifestyle.

The Joseph Rowntree Foundation produces an annual Minimum Income Standard "which is based on what members of the public think people need to achieve a socially acceptable living standard"[3]. That is to say, this income standard includes modest allowances for social and cultural participation – going out with friends, going to the cinema, or taking children on trips. The point is not how that money is spent, but that unless people have some budget for engaging in social activities they are effectively excluded from society and the communities in which they live.

The 2015 report reveals that single adults of working age need an income of at least £17,100 a year before tax, a single parent with one child needs £26,000, while a household of two adults and two children needs at least £40,000 to achieve the minimum income standard.

In our study, 88% of households with children (users of high cost credit and credit unions) have incomes of less than £20,000. This is far below the minimum income standard. It becomes easy to see how even simple things such as trips to visit family or a short-break become a trigger to borrowing. When the shortfall in income is significant, it is also easy to see how people begin to feel that they should 'cut back' on social activities, or feel guilty about the choices they make.

3. Hirsch, D. (2015). A minimum income standard for the UK in 2015. York. The Joseph Rowntree Foundation/ Loughborough University.

Many people effectively find themselves at a crossroad, choosing between spending money they don't have, or feeling that they are failing to provide for their families in the way they would like. Social activities or paying for children's entertainment in holidays become 'luxuries' rather than important and valid expenditure which supports people's participation in society and community life.

"I want to go and see my granddaughter, she lives in Snowdonia, it's nearly £100 just to get up there" (Female, 65-74)

"Me and my daughter were going out. Sounds terrible, doesn't it? I don't do it now … Within a couple of hours my money was in the bank. So, we got dressed, went to town, got the money out and enjoyed." (Female, 45-54).

"You squander it, well I have, I've taken them to Barry Island on it, and little things like that, when they were smaller." (Female, 65-74)

That is not to say, however, that acceptance of a culture of borrowing and debt is universal. In other instances, people have borrowed against their partner's wishes or without their knowledge.

"I didn't even ask my husband I just did it … When he found out he nearly hit the roof." (Female, 35-44)

"When we took the Home Credit loan out we took it out jointly. Some of the other debts that I've taken out, I've taken it out without my wife's knowledge. That's caused us some difficulties. My wife's better at handling money than I am so if I was short one week, she made damn sure that I was going to pay that money that week, because she was the one that had to face the woman." (Male, 65-74)

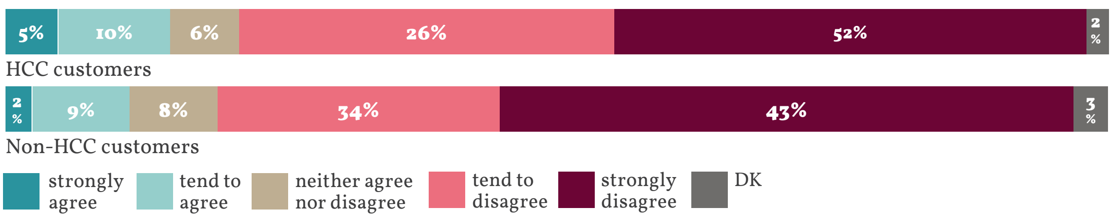
The vast majority of high cost credit customers are also willing to make lifestyle compromises to try and avoid borrowing (see Figure 28). In this respect, their attitudes closely mirror the rest of the population which does not use high cost credit.

"I've been tightening the belt so tight, my front's already touching my back … I've been stuck in the house more because I haven't got the money to put petrol in the car." (Male, 45-54)

"I manage on the money we've got, you know, they don't go without anything. We've always got food in the cupboards, gas, electric, heating … I've just realised that I don't need money all the time and the kids don't need everything they see." (Female, 45-54)

FIGURE 28
Agreement with the statement "I would rather be in debt than change my lifestyle"

Base: Welsh Population – 63 high cost credit customers; 948 non-customers

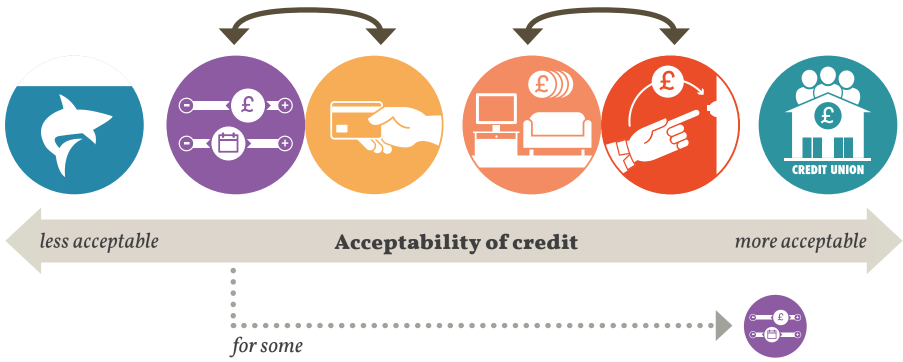


acceptability of different credit types

Even in families and communities where 'everyone' borrows, some types of credit are seen as more acceptable choices than others. Perceptions of different forms of credit and borrowing are shaped largely by personal experiences and those of family and friends, but also by media portrayals. The amount needed, and for what period of time, also influence views.

Each individual naturally has their own personal view and what is seen as an excellent option by some may be viewed as a last resort by others, and vice-versa. Nonetheless, it is possible to sketch out a broad spectrum of social acceptability (see Figure 29), drawing on the insights from how people talk about the types of credit they would and would not consider, and what they are willing to discuss with their families and friends.

FIGURE 29
The acceptability of different forms of credit



Affordable lenders

At one end of the spectrum are Credit Unions and a small group of other socially responsible lenders such as Moneyline. Their customers are often vociferous in their support and keen to recommend these lenders to family and friends. In particular the lower rates of interest and typically supportive, flexible response people receive when they face difficulties are highlighted as reasons for trust and as evidence of sound financial decision making. Many customers also highlight that these lenders have encouraged them to start saving for the first time and helped them to make positive financial changes.

"The APR is hardly anything. You get a loan and the money they add on it is nothing compared to what the banks do."
Female, 35-44, credit union customer

"When we took our loan out, a month ago, we left our savings there, ready for Christmas, so you know you've got your food money then." (Female, 45-54, Moneyline customer)

This is however, one of the least common forms of borrowing and many non-customers demonstrate little awareness or understanding of the credit union offer. Credit unions suffer in some communities from misconceptions around their products and services, and their eligibility criteria for loans. This is compounded by differences in the offer between the various credit unions operating across Wales.

One of the most common misconceptions is that there is a requirement to save (sometimes for several weeks or months) before becoming eligible for a loan. Housing experts also identify this confusion and the lack of consistency in product and service offerings as a deterrent to their tenants. This does not make credit unions a less socially acceptable option, but it does reduce the extent to which it is perceived as an attractive option by some potential customers.

"I was considering it a while ago, but it was just for something short term, but they said you have to be putting money into it for so many weeks before you can get anything back out, and then you can only borrow, like, twice as much as what you've put in, or something like that. So I just said, 'It's not worth it'." (Male, 25-34)

Deborah

Deborah originally began borrowing, with a home credit loan, to make sure that her children didn't go without: "We wouldn't be sitting here if we hadn't gone to people like them, let's be honest … you start off with [home credit] … they prey on the people who haven't got money."

Later, Deborah found out about Moneyline from her housing association. She wanted a lower cost option and she trusted them because of the referral: "It felt more secure going through them, I think, because it was through the housing association." Deborah feels she is getting a better deal with Moneyline; the interest rates have fallen as she has been paying back her loans and she enjoys the relationship she has with the staff: "Every time you want a loan you see the same person. I've always seen Jane."

"People used to go to the Credit Union, give them money, and after like six months or something like that, if you want to borrow, you can borrow more than what you got in your savings. Then that's how it starts, you can borrow that money and you pay it back. I wouldn't start, I haven't got a clue." (Female, 35-44)

Other potential issues which reduces the appeal and social acceptability of credit unions include the idea that "most of the people think we're a poor man's bank. Credit unions are for you, not for me" (Expert stakeholder).

This was not something reflected in the comments of high cost credit or credit union customers, but was mentioned as a problem by many stakeholders, including representatives of credit unions. Similarly, experts from the housing sector report that credit unions can lack take-up because they are "not always conveniently located where tenants can access them" and the time and travel costs then become a barrier.

"Even if we go into some of the community centres, in the more deprived areas, people won't come to us for advice or for our products and services because immediately they'll think that people will say that they are poor. That's one of the things that a lot people don't want - to be tarred with the same brush, 'oh she's going to the credit union, therefore she must be poor', which is so daft." (Expert, Credit union)

Home Credit

Rent-to-own

Next along the spectrum are rent-to-own and home credit options. For many customers, these are such common forms of credit and borrowing that they do not typically merit much comment. Almost everyone feels that they are very expensive options, but that equally they do not have many alternatives. Rent-to-own customers will often make recommendations to family and friends, not least due to retailer incentives to do so, and good home collection agents grow their business through word of mouth.

Home credit is seen particularly as an acceptable and good choice by some who have almost come to equate it with a savings scheme rather than as borrowing.

"It's like a savings account, except you get the money first … You pay them £7 a week and you get a new washing machine. It's very similar like Pay As You Go. You get your goods up front. You pay them £10 a week. Job's a good 'un." (Female, 35-44)

In contrast, there are some who feel a degree of shame in having to borrow and prefer not have weekly callers who can be seen by neighbours, regardless of whether everyone else is doing it too. They will often thus perceive rent-to-own to be the more socially acceptable choice. The evolution of home credit, however, means that customers can still continue to use their agent but pay weekly over the phone to maintain their privacy.

"I always say that nobody knows your business if you do it over the phone … He'll text me, 'Have you got your money ready today?' and I'll text him back with my card details, or ring him, and that's it." (Female, 25-34)

Rent-to-own also benefits from its presence on the high street, the visibility of goods in homes, and its similarities with other forms of retail credit. When people are proud of their home furnishings, they are typically happy to share, and buying on finance is often seen as a smart choice, as offered by a wide range of retailers, mobile phone operators, and so on.

"It's kind of social acceptance isn't it. It's socially accepted to get things on finance, with products like, because you do it with your mobile phone, every time you get a contract, you do it with cars." (Male, 45-54)

Those who dislike home credit and rent-to-own, however, tend to feel that they are extremely expensive options. In the case of home credit, it is also sometimes seen as a predatory form of lending which encourages people to borrow more than they need. The practices of home credit agents targeting certain estates, particularly in the run-up to Christmas, and of incentivising new customers with introductory low rates on vouchers are well-recognised as the core tactics which lead people to sign up. Others dislike the way in which agents encourage repeat borrowing, even when the customer may not have a specific need, by offering a new loan before the previous one is fully paid off.

"Brand A is horrendous because once you get into it it's really, really hard to get out. Say they allow you to have £100 the first time, when you get out about £40, then they offer you about £300 and then you think, 'oh right, if I had that £300, I could get so and so.' And then, before you know it, it's just absolutely escalated and the interest rates are just totally

ridiculous. It is the 'never-never' because you just never pay it off because there's letters constantly coming through your door, 'you can have this amount'." (Female, 35-44)

Both types of lender have also lost customers due to the behaviour of (sometimes rogue) employees who have been rude or aggressive, or as a result of disputes about product quality or the balance owed. In some instances this simply leads to the customer choosing a different lender offering the same type of credit, but in other cases leads to the customer finding a different solution altogether.

"In my opinion, it felt like they weren't communicating among themselves, like, because we had paid them, then they were getting told that we hadn't paid them. They were threatening to take the settees as well, when we had the kids. I found that was a bit out of order, considering, as well. More than once, as well, they said that we never paid them, didn't they? ... Thankfully, we kept our receipts so they didn't have a leg to stand on. We were in the right." (Male, 35-44)

"Then [the agent] said, 'You can come out for a date with me and I'll pay your weekly instalments.' ... He actually got sacked because of that because I complained, obviously." (Female, 35-44)

Bank loans & credit cards

Mainstream options appear significantly along the spectrum, reflecting a high degree of distrust in banks and building societies. Approaching a bank or building society for a loan is generally seen as an unwise course of action for a number of reasons. First, most high cost credit customers perceive it to be a waste of time as they believe that banks are not really interested in them as customers. This perception stems partly from the belief that their credit scores are so poor that banks would not be interested in lending to them. It is also related to a lack of saving which they feel would make them a less attractive customer.

"I just look at it, the bank's not going to lend me money, because I never keep money in there, so I never really bothered." (Female, 45-54)

Other important influences are personal experiences or those of family and friends who were previously offered large loans or credit cards with high limits by banks and then struggled to meet repayments. Some are now users of high cost credit because they have previously failed to repay bank loans, credit cards and store cards, leaving them with damaged credit records. This experience has left them wary.

That aside, even if banks were willing to lend, they are considered to be a risky option. People fear that they will be required to borrow more money than they need, over a longer-term than preferred - they are simply not associated with short-term small-sum loans.

"They would have offered me more money than I wanted and I would have just said, 'Yes,' like the numpty I am ... They always do ... They did it to my brother ... They say, 'We could offer you up to £1,500,' and it's, like, no. 'I just asked you for £500. If I wanted £1,500, I'd say, "Can I have £1,500?".' Then if they offer it to you, you're, like, 'Yes, go ahead. Just in case I need it, yes.' Do you know what I mean? Vicious." (Male, 35-44)

"If I had taken that £850 out with the bank, they won't do a three-week loan, it would have to be for a year or something. Banks tend to have, I don't know what their minimum is, whether it's six months or a year, from memory it would have to be a year, I would imagine, so you would have to take it out. I think they do sometimes allow you to pay it off early, but it's just a hassle, you know. If it was short term, you know, as my partner did, needing that £400 for two weeks. It's nice to be able to just pay it off and know that they're expecting it." (Male, 45-54)

This is further compounded by a narrative around banks encouraging people to take out credit at a young age 'to build your credit score' and hence lending more than people can afford.

"My bank did tell me to get a credit card cos I went in to get an overdraft but I said no. They said that cos I had no credit, I had to get credit, so they told me to go and get a credit card ... I've been bred from my parents not to get a credit card ever but I will need a credit card eventually ... I've seen my parents get into a lot of debt." (Male, 18-24)

The perceived risk of borrowing from a bank is exacerbated by the feeling that banks are somehow more 'official' and less "human" than other lenders. People lament the lack of a personal relationship in branches and feel that as low-income customers, they are not of much interest to the banks. This translates into a perception that banks and building societies are 'powerful' and that the implications of missing payments or defaulting on the loan would be more serious as a consequence.

*"You're only a number, aren't you? ... I can go to [the credit union], and I can, you know, not a sob story, but tell them how it is, and they're like, 'Don't worry about it, it's not the end of the world, if you can't pay your loan this week,' but if I did that in the bank they'd go, 'P*** off,' you know, type of thing."* (Female, 35-44)

"You can't really mess with the bank. They can draw your money basically. That's where your money goes. Your wages, everything. They can take all they want. It's their money, like." (Female, 18-24)

"I think the bank would have more of a leg to stand on taking you to court if you owed the bank money than a doorstep lender would. Banks are more official ... I'd be more scared of someone from the bank phoning me up than having a big man on my doorstep saying, 'I want money off you.' I'd say, 'Go away'." (Female, 45-54)

That is not to say, however, that all customers completely reject the idea of borrowing from a mainstream lender. Some, particularly younger people, have aspirations to improve their credit score sufficiently to the extent that they may one day be able to take out a mortgage or a personal loan. Credit cards are recognised as being a useful way of improving credit ratings, or for emergencies as long as you are able to maintain repayments in full.

"The reason I got the credit card in the first place was to build up a credit rating in case we ever go, need to hire a car again abroad. That's the sole reason I got the credit card ... to build up that score with them." (Male, 65-74)

Payday loans

As illustrated in Figure 29, perceptions of payday loans are mixed. For the majority of high cost credit users, however, they are not seen as a particularly desirable option. A significant group of people, believe that payday loans are simply not an option because they do not have a sufficiently high credit score, particularly since the introduction of the cap led to a tightening of lending criteria. There is little to no understanding of the more complex and nuanced criteria used by many lenders to make a decision. Some have tried and been declined, often by multiple lenders.

"I just tried every single payday loan on the Google page ... and I didn't get a single one ... had a bit of a cry ... then went to the bank of Nan." (Female, 18-24)

Another important factor is that payday loans are a very different type of credit product to home credit and rent-to-own. The requirement to pay back a loan in a lump sum is a significant deterrent for many people who need the weekly payments to make sure the loan is affordable in the context of their regular outgoings. For this reason, they feel that payday loans are simply not for them. More recent changes in payday lender products, including a rise in the number of instalment loans being offered, has not yet altered the perceptions of many who were previously put off by lump sum repayments. Others go further, projecting their fears and anxieties around debt, and the struggles they face with turning down credit, onto the lenders and suggesting that such products should not be available as they see the potential for repayment problems.

"I think if you've got to pay all your wages back, I don't think somebody should let you do that." (Female, 35-44)

At the same time, the media coverage of payday loans in recent years, typically highly condemnatory, has also clearly influenced perceptions. The prevailing narrative around the high interest rates and revolving loans is well-rehearsed, often further reinforced by personal experience or that of family and friends. Again, although most are aware that there has been action taken to limit the interest rate on payday loans, people still think back to the headline-grabbing rates prior to this, or the experiences of others before the cap was introduced.

"What I see on the news about the payday loan people, like Brand B and that, their interest rates are thousands, 4,000% and things like that. I think, 'Well how on earth can they justify that?' I don't think we paid anything like that with Home Credit." (Male, 65-74)

"So I'd borrow it one day, and then by a fortnight later, it'd go out my wages to pay it off, and then I'd have another one then, because I was skint then, so I'd end up having another one. So, yes, it didn't work out. It went on for a good five, six months, of having to take one, pay it back, have another one, because I didn't have any money. That's how I landed up with Brand B, then, to pay off Brand A. And then I just got in a thing. So me and her went skint for a week, paid them off and didn't do another one." (Female, 45-54)

This common depiction can also be contrasted with that of rent-to-own and 'buying on finance'. The associations of payday loan with problem debt are seen to imply that you have not managed your money well, and that taking out a payday loan is not really a sensible decision. 'Buying on finance' can, however, be a sensible financial choice, as made by millions of people from all walks of life. Consequently, people are less likely to discuss having taken out a payday loan with family or friends.

"If it's a product, then you're saying, well look, it was on 0% ... what you can admit from that to your friends is, 'I could have bought it but they told me I could pay monthly, so it just seemed more sensible to pay monthly'. Whereas if you've got to say that you've borrowed money say from a payday loan because I'm skint. I'd be less inclined to say that to one of my friends as to, 'ah I'm going to buy a new car so I just took out a loan with X, Y, Z to purchase that. Because I think you don't want to justify to people that you live beyond your means or that you take the mick and that you've got a bad attitude towards money or something." (Female, 35-44)

At the same time, some payday loan customers are quick to point out that it provided them with a quick and cost-effective solution to a short-term credit need. Payday loans continue to provide a useful and important product in the market-place and by no means always result in the detrimental consequences that many fear. Typically people find them to be helpful at times of emergency or unexpected spend and when people are able to make the repayments as planned, without having a knock-on effect on finances, they can be more time- and cost-effective than a loan from a mainstream lender.

Dan

Dan works for a call centre and drives to work. Last year his car failed its MOT and he needed to purchase new tyres. He didn't have all the cash available but needed to get back on the road quickly. He took out a payday loan online, paid for the tyres and work, and was back in his car the next day. He repaid the loan the following week, once he received his wages. Dan found the experience extremely "quick and easy" and he had "no problems" at all. In a similar situation, Dan would happily take out another payday loan.

The speed of receiving a decision, and then the cash, are huge benefits for some people. Although some are accessing payday loans on the high street, the convenience of being able to make the application online, at any time of day, is also a notable advantage.

"It is something that hopefully you'll just take out your next salary, so I think that's important, because it's usually something like-, if I went home tonight and my pipe has burst and my flat's flooded, and for some reason, you know,

the insurance can't pay out for a while, or you might need it cleaned up, you might need to pay for someone, you might need £200 quickly. There's no point, if your flat's flooded, there's no point getting that money if the bank says, 'We'll sort it out in 48 hours,' no, I need it now." (Male, 45-54)

"It was okay. It think it was a bit cheeky, like the interest, but like I say, the quicker you pay it back the less you pay." (Female, 25-34)

"Because you haven't got to see anyone, you haven't got to speak to anyone ... so if they say no to you, you're not embarrassed because it's just a computer saying no to you ... and then online it's 'ok, I haven't got one from that one, I'll just try another one'. It's quick, it's easy and money goes straight into your bank." (Female, 25-34)

Nonetheless, most payday loan customers who have had a positive experience do also emphasise the importance of using them only occasionally, borrowing only what is affordable as a proportion of your monthly wage, and hence not getting trapped in a cycle of taking out one to pay off another.

"It's not good to use them month after month after month after month. They are good if it's just a one-off or now and again". (Male, 35-44)

"I think another good point for payday loans is if you are trying to build up your credit rating. So, if you want to take out like £50, and then you pay it, building it up and building it up. Again, you know, then you're just paying the money to build your credit thing up ... It's all about being smart." (Female, 18-24)

Illegal money lenders

Finally, at the far end of the spectrum are illegal lenders. Unsurprisingly, few people spontaneously mention having borrowed from an un-licensed lender. The perils are clear to most, neatly summarised by one man as "Payday Lender A won't put you in hospital; the loan shark will", although he also wryly noted that before the High-Cost Short-Term Credit Cap was introduced, "half the time, the sharks were giving better rates than Payday Lender A". There is, however, a growing awareness of the problem.

"Two years ago I'd never heard of the Wales Illegal Money Lending Unit, but they're all over the place now, because so many people are borrowing from loan sharks, suddenly this organisation's in the news every day, you know." (Male, 45-54).

"He used to lend money to people and he used to walk around with two Alsatians and if they didn't pay him, he would set the dogs on 'em ... I don't know them to socialise with, but I know them." (Female, 35-44)

Using an illegal lender is often either an act of desperation, victims are sucked in by someone who they believed to be their friend, or they do not realise the lender is unauthorised. The shame and stigma associated with borrowing from an illegal lender was highlighted during the research by a taxi driver who was taking one of our researchers between interviews. A gambling addict, he had borrowed from a loan shark to pay his other debts and was keen to share his story and raise awareness of the problem. He told how it had left him physically beaten in hospital and was a contributor to the breakdown of his marriage and the loss of his home. He couldn't, however, be persuaded to take part in a fuller interview, willing only to talk in the anonymity of a taxi, with eyes on the road. Regardless of the circumstances which lead to borrowing from an illegal lender, the outcome is usually devastating for the victims.

Irene and Ken

Struggling to make ends meet with their family, Ken was introduced to David by his brother. The first loan of £100 was quickly repaid but soon replaced with a slightly larger loan for Christmas. Gradually the size and frequency of the loans increased. The interest rates rose and David began to accompany Ken to the cash point on pay day. Later he took their cards and withdrew the money himself. Irene and Ken were reduced to living from hand to mouth, often with barely enough to eat. After a decade, now retired and in poor health, the stress overwhelmed them both.

"What it was, she said to me, 'I'm taking the dog for a walk.' 'Aye, alright.' She came back in. I was just going to go looking for her because she had longer than what she normally did. I came back and she had a strip of my tablets, she said, 'I've taken an overdose.'

As luck would happen it was only my tablets but they wouldn't do you any harm. We got back in here about six o'clock in the morning. 7:30, I wake up, not a sign of her in the house. I thought, 'Where has she gone now?' She tried drowning herself in the river."

While she was in respite care, Ken too tried to end his life. Despite this, it was several months before Irene and Ken found the courage to tell an advice worker where their money was going and get the help they needed. Today they are living happily and able to enjoy "a Chinese at least once a week, which we couldn't have a tin of beans before, never mind a Chinese", but keen to encourage others to come forward and get help.

the influence of personal relationships

While the wider social environment in which people live is hugely important in shaping attitudes and the decisions people make, some personal relationships are more influential than others. Family and friends can play a wide range of roles in someone's credit journey, from providing recommendations and advice, to practical support and help when times get tough. On the other side, staff who work for lenders themselves can play an important part in influencing choices, particularly regarding repeat borrowing.

FAMILY AND FRIENDS

The influence of family and close friends is evident at all stages during the loans process. It can sometimes start long before a first loan is even considered, with parental attitudes being passed down generations. Similarly, financial behaviours and experiences, both positive and negative, can help to educate and inform others about the realities of different forms of credit and their potential consequences.

Neither the modelling of desired behaviour, nor the explicit exhortations of family and friends are guaranteed to have the intended outcomes. For example, if parents have always encouraged their children to avoid borrowing, this may only serve to increase the shame felt by someone who does then go on to borrow and decrease the likelihood of them asking for help. For others, that same guidance will help them to make more positive choices. Children also often seek to influence their parents who use high cost credit, encouraging them to stop borrowing or to seek alternatives.

"They do not like debt. They always told me, 'Do not get a credit card.' My dad had an issue with them going back quite a few years now, back when I was a kid. He obviously learned his lesson from that… I think if I told my parents before doing [a payday loan] they would have talked me out of it. It would have been for the best." (Female, 18-24)

"My boy doesn't do loans, he's dead against it. He had a loan, and he's paid it off; he's dead against them. He keeps shouting at me not to do them." (Female, 45-54)

Besides influencing attitudes and attempting to educate, family and friends can play a far more explicit role in affecting someone's choice of lender. Many people follow recommendations and place notable importance on the opinions of those they trust. Generally this is based on personal experience but can also incorporate elements of anecdote or information gathered on the local grapevine.

There are also differences in the ways in which different types of credit are recommended. Home credit will often involve a direct referral to a specific agent while rent-to-own recommendations are often driven partly by retailer incentives to 'introduce a friend'. Payday lender recommendations are less common overall, and tend to be more limited to cautionary tales if someone has had a bad experience. Outstandingly good or poor customer service, or disputes will often be shared among family and friends for all types of credit.

"That was really good… somebody recommended me, I recommended somebody else, and there was something else. I only ended up paying about £50 for the Hoover, because you get money back for introducing people, if somebody introduces you, you get money back, and there was something else that you got money back." (Female, 25-34, rent-to-own customer)

"Just a friend said, you know, 'If you're stuck and you want to redecorate, why don't you get a loan off [home credit]?' So they got their agent, give them my name and he just came round to the house. That was it." (Female, 45-54)

> ***"My dad actually told me about [rent-to-own]… He said you can easily pick up for cheap, and it says like weekly payments."***
> **Male, 25-34**

"I went to [payday lender A] because my sister took a [payday loan B] and she had trouble." (Female, 45-54)

The same factors are at work with regard to affordable credit options and mainstream lenders. Good experiences in terms of better APRs, more flexible payment options, support when facing difficulties, and friendly staff are particularly common drivers to recommendations of affordable credit providers. Some affordable lenders also benefit from recommendations in certain communities via housing associations or employers.

"Everyone in [town] has them. I was old and I had children, like, hardly anyone had kids then, like in my year, I got to know the older people. When I was saying about, 'I need a dryer. Do you know anyone selling one?' She went, 'Have you never heard of the Credit Union?'". (Female, 18-24)

"Bizarrely, the bank lent me the £300 for the computer, interest free, because my dad had a butcher's shop and he used have the business account with them … he had his personal account there and he had his business account there, so he opened up an account for me when I was eighteen at the same branch." (Male, 45-54)

"I found out through the housing association, because they're linked with it, if you're a tenant." (Female, 35-44).

Family and close friends can also play a key role in helping those who find themselves unable to make repayments on loans or facing mounting levels of debt. Often, when a high cost credit customer has managed to break a cycle of borrowing to repay other loans, it has been loved-ones who have stepped in to help. Assistance can be practical, for example in the form of interest-free loans or help with providing essentials while debt repayments are made, and/ or oriented towards providing emotional support and signposting to advice.

"In the end, my daughter then blocked [the payday loan account]. She said, 'If we can struggle for one week, you've got your money to yourself', then I had to have help off friends and family for that one week, and I've never looked back since … My sister lives two doors down and I was just fetching this over, fetching that over. I'll take the baby down, give him food, and I had to live like that for that week." (Female, 45-54)

"I got advice from Citizen's Advice … My Dad virtually went 'there you are, you are outside. Go in'. 'Yes Dad' …. My Dad was paying off the loan for me because we couldn't afford it."
Female, 35-44

"My mum got peed off with it, like. She helped me out and paid them off. I've never had a payday loan since." (Male, 35-44)

Even when someone has not reached crisis point, family or friends can play an important role in helping people to reduce the amount or frequency with which they borrow, and to improve their money management. For example, this can include helping people to manage their bills, or by looking after certain 'pots' of money.

"She's a really good friend, I've known her for years … She said to me, 'Finish paying [the home credit agency] and I'll lend you £1,000.' She gave me £1,000 at the end of November and I pay her, well, I've finished now, I paid her £50 a week back but there was no interest on that." (Female, 45-54)

LENDER EMPLOYEES

Staff play an important role in generating repeat business for lenders; it is naturally in their interests to build good customer relationships and try and ensure that customers have a positive experience. The more frequent the in-person interaction, the more important this becomes. For customers, a positive relationship with the lender can become an important rationale for not 'shopping around' or comparing lenders – "better the devil you know".

Consequently, home credit is the form of borrowing most influenced by relations with employees. The majority of customers see their agent on a weekly basis – a bad relationship is often a trigger to switching to an alternative home credit provider, while a good relationship means that renewing a loan appears the easiest option for many. Relationships with home credit agents are often long-term and many people have interactions with them outside of their capacity as collection agent:

"I like my little [home credit agent]. Seeing his ugly little mug for every Friday for God knows how long. I can tell you he's got three kids and a Mrs, and where he went on holiday last year." (Female, 35-44)

"[We went back because] we had other stuff off them, and in the beginning they were pretty good with us … We had good customer service off them. The staff were friendly and that, to me, that says a lot, really. It goes a long way if you've got pretty good customer service." (Female, 35-44)

One customer even described protecting her agent from other customers that she deemed to be unsuitable.

"She said to me, 'Do you know anybody who'd really like a loan?' I told her straight, 'No,' for the simple reason I wouldn't trust anybody in this street, to have loans. They're all youngsters and they're on the wacky baccy" (Female, 65-74)

Credit unions and other affordable credit providers also tend to have frequent contact with their customers and similarly strive to maintain a friendly and helpful relationship with their customers; their success on this front is reflected in customer feedback.

"With the credit union, like, you can go in there and speak to them as a person rather than, you go to a big bank and they're like, 'You have to speak to the manager.' There, even the assistants who are voluntary, they'll sit you down and, you know, nothing's too much." (Female, 35-44)

"I think it's more personal when you go into the office and you see them in their own environment … They talk to you on an even keel in Moneyline. They don't look down their nose at you at all." (Female, 45-54)

To a lesser extent, the rent-to-own sector, particularly retail stores rather than pay-as-you-view, is also able to promote repeat business by building positive customer relations. The lower frequency of purchases, however, and the greater tendency to pay via automated methods, means that relationships are not as close as those with home credit agents and affordable credit provider staff.

Contact with payday loan company employees though is typically rare, if it happens at all, and so this is not a significant influence on decisions to borrow from these lenders.

Regardless of the type of credit, the recipe for success is, at its core, quite simple: if an agent is friendly and personable, appears trustworthy, does not make the customer feel pressured into borrowing, and is supportive when payment difficulties are faced, then the relationship is usually positive. People are particularly positive when they feel that agents have made special allowances for them or given them good advice.

"The two people I see [from the rent-to-own company] if they say I can't have it, I can't have it … but they always try to help me out as much as they can possibly. Instead of getting something that's brand new, they look for a reconditioned one for me, which would be even cheaper." (Male, 25-34)

By contrast, negative relations usually arise when people find staff to be rude, judgemental or unhelpful, or when there is a breakdown of trust due to a dispute over products or repayments.

"The agent's lovely anyway. We've known him for years and years and years. He came round when I first got a loan when we moved in here … I get on really well with him. He's not like that, but the one I had when I lived in [another town], like I said, when I stopped paying, he kept knocking. He was just dead rude and speaking to me like I was beneath him. That's when I thought, 'No'." (Female, 45-54, home credit customer)

"But then you've to watch these callers who come out to empty [pay-as-you-view boxes] because they're so cunning. Oh we've had a couple of dodgy ones. They say, 'oh can you watch my car and then they take a handful of money off you … they done it to our Tina. The meter was practically full and then he said 'it's only £4 in here'. I reported it." (Female, 55-64, rent-to-own customer).

Difficulty repaying can also lead to negative experiences of debt, particularly when customers perceive that their creditor is being unfair or inflexible, or unnecessarily aggressive in their pursuit.

"If you fell behind on a week they'd come banging on your door. I had a go at them in the shop to say whatever reason I was late paying, I couldn't get into town or whichever reasons, that wasn't good enough. In the end they came to the house and my husband gave them a piece of his mind and I don't think they liked it. So we said never ever, ever Brand Y again, never have done either. Not even interested, not even Brand X. I may have looked in the window, but no, I won't anymore." (Female, 35-44, rent-to-own customer)

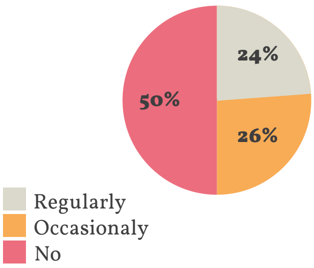
lenders encourage repeat borrowing

The patterns of borrowing by high cost credit customers clearly illustrate that a significant proportion of high cost credit customers come to take out loans and credit agreements on a regular basis.

Lenders themselves play an important part in this by offering new loans or credit agreements to customers, typically when customers have paid off most of a current loan or shortly after. For almost one-quarter (24%) this happens on a regular basis, and for another quarter (26%) it is at least an occasional occurrence (see Figure 30).

FIGURE 30
High cost credit customers encouraged by a lender to borrow more money after one loan ended or they had paid off a significant amount of the loan

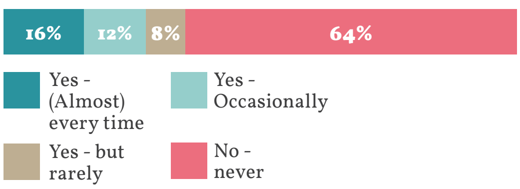
Base: 103 customers who had taken out high cost credit in the previous 12 months



When offered, one-third (35%) of customers have taken out another loan at least once, with 16% doing so on a regular basis (see Figure 31).

FIGURE 31
Acceptance of a new loan by high cost credit customers encouraged by a lender to borrow more money after one loan ended or they had paid off a significant amount of the loan

Base: 51 customers who had taken out high cost credit in the previous 12 months and were offered another loan by their lender, before or just after the previous one ended



It is of note that customers who have someone in their household with a limiting long term illness/disability are significantly more likely to report feeling that a lender has encouraged them to take out a new loan (64%) than those who do not (38%)[1]. They are, however, less likely to have taken out another loan as a result (23% vs. 52%). There are a number of possible explanations for this, which cannot be fully explored through the data available. In a climate of largely responsible lending, it seems unlikely that this is solely down to predatory behaviour by lenders, although a small element of this by rogue staff cannot be discounted. Another explanation could be that those who are already vulnerable in some way are more likely to feel pressure to take out another loan, when others may dismiss or forget such proposals.

Underlying this overall picture are significant variations between different types of lender. The qualitative insights reveal that this is most commonly associated with home credit, followed by rent-to-own.

The commission-based model of home credit, along with the regular face-to-face interaction, provides collection agents with a strong incentive and plentiful opportunities to encourage customers to take out new loans. One former home credit agent, herself a regular user of high cost credit, explained the pressure that agents are under.

"They get trained to build up a relationship with your customer and you're pressurised into selling money … What I used to do, when I was the agent, if I say, for example, went to Emily I'd go 'oh do you want to renew your loan tonight Emily?' and she'd be like 'no, no, no', and I'd be going 'oh go on'. And then what I'd do, I'd get my money out of my bag and then I'd go 'oh come you on Emily you can have £200 now, I've done the form, all you've got to do is sign'. And then you waft the money in front of their face and when that money's there I know she's gonna say yes, there we are, thank you very much. I've pushed her into having more debt. I know it's wrong but they've got targets to meet."
(Female, 35-44)

Most customers are fully aware of this, and the common tactics used, and feel that it plays on their weaknesses and how hard it is to turn down money when offered. Inevitably it is harder to say 'no' when there is a good relationship with

1. *Base: Customers who had taken out high cost credit in the previous 12 months – 47 whose household contains someone with a long-term disability or illness; 56 people whose household does not.*

the agent and a regular source of credit which consumers know they will rely on in the future. It is not a practice which customers welcome but it is recognised as an inherent part of the lending model. A few also mentioned that some agents will now lend to two adults in the same household in order to maintain the cycle of borrowing, whereas previously it was limited to one person.

"They encourage you to borrow more and the thing with [home credit] is, they're pretty secure because they knock on your door every week and it's difficult to turn them away." Male, 65-74

"If I say to my agent 'I know I'm supposed to pay you £15 a week but I'm really struggling, can I pay you £7?', 'yep, no problem', and when that loan is paid off even though it's taken me longer, he'll still go 'do you want some more?'. It's like being a drug addict." (Female, 35-44)

Some rent-to-own customers also report that they are subject to similar encouragement to borrow, for example when in-store to make payments. In this instance, the visibility of the goods and the ease of 'browsing' increases the temptation to say 'yes' to the suggestion of additional purchases.

"It's like with [Store A], it's so easy. Like today I went to pay my payment and they said: 'oh Sandra! Christmas is coming, what do you want?' and I said 'no I'm not having anything and he said 'come on!'... I bought a laptop. Well it's for my daughter... and she needs it for college." (Female, 45-54)

Mentions of this type of contact are rare among payday loan customers and credit union customers. Lender encouragement of repeat borrowing is not restricted to in-person interactions, however. Customers of all forms of high cost credit report receiving phone, email or written communications which inform them of their 'eligibility' for a new loan or promoting special offers on rent-to-own products, and so on. A less overt form of pressure, this still inevitably leaves some customers feeling that lenders are encouraging them to borrow and struggling in the face of temptation.

"The only problem is then, when you get down to your last payment, they send you an email 'oh now you can borrow this amount'. And it's the temptation because you think, 'oh I could do with some more clothes or I could do with a night out.' You've gotta say no." (Female, 35-44, payday loan customer)

"They'll take that from your bank but at the same time you'll get another text message saying 'please text this number if you require another £100'... So you're now another £20 even more short, so you take another one back out." (Female, 45-54, payday loan customer)

"They message you and they email you. I always used to pay on a Saturday, they rang me up, they had a regular automated phone call service, where your phone rings and you just press the button, and they store your details and pay, and on that message, straight away, as soon as it clicks in, it's 'recommend a friend this week and get £50' or 'get a Samsung TV and get £250 off'. It's always something, and it's tempting then to go with it, and if you're easily led and vulnerable to it, you take it." (Female, 45-54, rent-to-own customer)

"They send you letter saying that there's this much in the office waiting for your phone call ... just give us a ring." **Female, 45-54, home credit customer**

High cost lenders are not the only ones who come in for criticism for encouraging repeat borrowing. Those who have also used credit cards and catalogues are also often quick to spontaneously identify them as using hard marketing tactics, leaving one woman feeling as though her credit card company was saying "you haven't spent enough, why haven't you spent enough?" in response to unsolicited text updates on her available balance.

"With the catalogues I got the ones that I needed and then cos I paid it however many months, they just add more money to your balance. They just make it higher and higher and they send you loads of promotion codes in the post to encourage you to use it more." (Female, 18-24)

the role of the market

In addition to the many personal and social influences on decision-making, access to affordable credit and credit choices are constrained by what the market offers, the relative visibility of different products and services, and how this interacts with each individual's personal situation.

In some cases the high cost credit market has produced products that meet the needs of certain groups better than more affordable credit options.

AVAILABILITY AND ACCESSIBILITY

In Wales, availability and accessibility are often closely intertwined, particularly in rural areas and small communities. There are four major factors which determine what is available to a customer in practical terms:

The high street - Not every high street will offer an affordable credit option and often credit union branches are in major towns and local collection points can only be operated once a week in many communities at best.

"[The credit union is] further afield, it's not local to where we are."
Male, 25-34

Transport – If something is not available locally, or if someone has poor mobility, public transport is the main enabler of access. Often transport links are poor or expensive. In some instances, the cost of travel to a more affordable lender can significantly reduce the savings obtained.

"People like the door-to-door service provided by high cost creditors such as home credit, particularly in the Valleys where transport to the dying high streets is poor, and particularly given an aging population." (Expert- Housing Association)

Personal mobility - Health conditions, disability, or caring commitments can all limit someone's ability to get out and about. Not only is this likely to limit the credit options available to them due to a constrained travel radius, it may well also reduce their awareness of alternatives.

"I can't get out and about like I used to ... Since I've been bad, I think I've been to town once in twelve months. If I want to go anywhere, well, I get on my scooter .... My friend's exactly the same as me, she don't go far, so we're in the same boat." (Female, 65-74)

Internet access – Whether or not an individual is 'online' has a significant impact on not only what products are available to them, but also limits their access to a large amount of freely available information and advice on money management.

"You shouldn't assume that everybody uses the internet, it doesn't work like that."
Female, 45-54

By contrast high cost credit options deal with these issues by presenting products that work in a range of different ways, many of which help to overcome the barriers of accessibility.

Many rent-to-own companies have staked out prime real estate in town centres and provide catalogues through which people can order products that are delivered.

Payday loan companies often offer an entirely remote service, operated through the internet or phone. This means that money can be deposited into an account without ever leaving the house. For some people with limited mobility, or shift patterns that preclude access to credit in working hours, or needing cash on evenings and weekends, this is a serious draw.

Home credit tackles the problem of low mobility or lack of transport in a different way, while also serving those who lack internet access, by sending credit agents to the door.

AWARENESS

Although awareness of different options can be heavily influenced by people's relationships and social norms within communities, lenders are also actively seeking to raise their profile.

High cost credit lenders have far greater advertising budgets than affordable lenders and are typically able to use their resources to ensure that they have greater visibility both on the high street and online. Different types of credit, however, vary in prominence according to the location.

On the doorstep

On the high street

Online

Home credit is naturally the most visible and present on people's doorsteps, although television advertising, particularly of payday loans, also brings lenders into people's homes on a daily basis.

Online people searching for quick loans or quick money and so one are most likely to be presented with results relating to payday loans, or some of their variants including instalment and guarantor loans. Cookies, however, typically ensure that people see adverts relating to their previous searches, so home credit or rent-to-own stores may also feature, including as paid-for targeted adverts on social media feeds and so on.

On the high street, rent-to-own stores and other lenders such as payday loan firms and cheque cashing services are often located on more major thoroughfares than affordable alternatives who cannot meet the premium cost for premises.

However, advertising or a strong high street presence does more than just raising awareness of products and services, although this is hugely important. As with many consumer goods, people often tend to prefer brands that are well-known. It makes it simple to identify a lender in a crowded market-place and also signifies to consumers that a company is successful and hence can be trusted. For online loans, greater marketing spend typically means a higher placing in search results, increasing the likelihood of click-through.

"They're the ones that people know of, so you automatically go to them because you're not aware of all the other places that you can go to."
Female, 35-44

"It might sounds stupid but you think … obviously they've got a lot of customers to make the money to be putting the adverts on the TV … So that's why you obviously think well a lot of customers use them, so they've got to be a good company." (Female, 18-24)

high cost credit: an attractive option

It is also important to remember that the high cost credit market is thriving in response to customer demand. Lenders are offering products which respond closely to consumer needs in terms of their features. The benefits often outweigh the costs and, when the overall borrowing experience is predominantly positive, there is insufficient 'pain' to drive people to invest time and energy in seeking out alternatives.

Overall, high cost credit products are perceived to tick all or most of the boxes that customers require (see Figure 32). Few, if any, of the alternatives on the market achieve this.

Different forms of high cost credit capitalise on their relative strengths within this mix which helps to shape which lines of credit are most attractive or useful in different situations. For example, payday loans are seen as attractive to some customers for their convenience and speed, but are less likely to be perceived as offering affordable or flexible payment plans.

FIGURE 32
Attractive features of high cost credit products

Affordable repayments	Convenient	Quick to get decision	Quick to get cash or product
Ease of application	"For people like me"	Relatively low risk	Flexible payment plans

AFFORDABLE REPAYMENTS

Whilst the main acknowledged downside to high cost credit is its expense, the total cost of borrowing is something that the majority do not consider so closely. There are two major considerations. First is the size of each individual repayment. It must feel affordable in the context of regular outgoings and so whether an agreement is for £5 or £10 a week is typically more important, particularly for home credit and rent-to-own, than the total cost of borrowing in the longer term. This is an important reason for some customers choosing not to take out a traditional payday loan which requires one lump-sum repayment at the end of the term.

"I thought, 'Right, they're asking £5 a week back, that's fine, I can afford that', and that was it, I didn't think of it, you know, how much they charge, and all the rest of it." (Female, 25-34, home credit customer)

"I know I'm paying more than the £400 I borrowed back but for an extra £4 a week that's not really too bad … I wouldn't say I was living in the lap of luxury but I was just getting by but an extra £4 doesn't really bother me". (Male, 45-54, home credit customer)

Second is the ability to repay on a weekly or fortnightly basis, or other agreed instalment basis. People feel that spreading the cost means that they could manage particular crunch points when they might otherwise have struggled, like Christmas or birthdays. Rent-to-buy customers particularly felt these high cost options rendered unaffordable items affordable. It also links closely to the repayment amount, as customers often like to schedule loan payments to coincide with when their income comes in to ensure they are affordable in any given week. Even when some customers could theoretically find the cash to purchase the item outright, if it would leave them financially constrained they may still choose to buy through rent-to-own to have some money left over for other things.

"They've got stuff you need that you can't afford in shops. So just go to [the store] and pay weekly for things that you can't actually afford." (Male, 18-24, rent-to-own customer)

"I actually had the money to go and buy a sofa and it was like 'have now and pay in weekly instalments' so apart of it was a bit of greed I suppose, 'oh I could do this with that'." (Male, 45-54, rent-to-own customer)

EASE OF APPLICATION

A straight forward application process appears to be something valued by customers. It reflects the typical lack of confidence in dealing with financial matters, including seemingly complex paperwork, terms and conditions, or explanations of interest rates. This is particularly the case for people who want to be able to get a decision from the lender quickly. As such the relatively simple processes that are often characteristic of high cost credit options, including easy online tools to calculate payday loan repayments, can be a significant draw for people.

"So we popped into store, we had a chat with the manager and he told us our options. They said we could have this one if we wanted to, so we just accepted. Again, a bit rushed because we didn't have anything to sit on ... if you've got into a temporary accommodation, we only had three days to find furniture before we moved into the property." (Male, 35-44, rent-to-own customer)

"If you go to a bank or something like that you can wait a month. They can get you the money in hours."
Female, 45-54, home credit customer

However, the easy application process can also act as a further disincentive to compare lenders and seek out the best available deal.

"Obviously then instead of shopping around, because I thought, 'oh I'm not putting all my details in and everything back in all over again', because it takes a while, obviously. I know it's because you're getting a better deal or whatever, but I just went straight for the first one." (Female, 25-34, payday loan customer)

CONVENIENT

In addition to the application process itself being straightforward and 'easy' customers also value the convenience of some forms of high cost credit. This was particularly the case with home credit and payday loans. In the case of payday loans being able to access it over the internet without having to travel anywhere or speak to a person feels very convenient. Conversely, for most home credit customers the fact that a person comes to the door is seen as a major benefit.

"If the credit union were to be more flexible and adapt to have more of a [home credit provider] way of collecting money; knock on your door which is convenient and accessible. This would help to provide a better deal for tenants and take some control from [home credit lenders]" (Expert, Housing Association)

"I suppose it was more convenient, you see, wasn't it? You know, you've got to make an appointment in the bank, you've got to go in; this person came to your house." (Female, 45-54, home credit customer)

"I think if you've got someone knocking on your door, you know, I'm not saying that we don't hide from that but it's easier isn't it. 'Here we go there's the money' rather than thinking oh I gotta go to the bank and I got to draw down the money." (Female, 35-44, home credit customer)

QUICK TO GET A DECISION AND QUICK TO GET THE CASH OR PRODUCT

For many high cost credit customers there is a sense of urgency to their need for a loan. Needing repairs on a car they use to get to work or left with an unexpected bill they feel that time is of the essence and turn to those providers who promise speed.

Even for those people whose need is not quite so time sensitive the relative swiftness of high cost credit providers in both making a decision and getting the product to them is viewed as highly desirable.

"The other thing, they give quick replies, as well. They do say, 'We'll let you know like that,' so you kind of submit it and it's back, so you're not waiting for two days, and like I say, they do make it very easy." (Male, 45-54, payday loan customer)

"So they got their agent, give them my name and he just came round to the house. That was it. Did the form and he said, 'Yes.' That easy and gave me the cash on the day." (Female, 45-54, home credit customer)

"Most of the time it was, 'We need X amount now,' and that was the major pull with online loan companies." (Female, 18-24, pay day loan customer)

RELATIVELY LOW RISK

As explored earlier many high cost credit customers feel reticent about accessing credit services from banks.

There is a perception that, for the high cost credit customer, banks are higher risk than high cost options. Among some customers the perception of themselves as at the margins of financial security seems to mean that they feel high cost credit options are more appropriate for them. In particular some expressed that, should they experience difficulties with the loan, they felt that the consequences would be more severe with a bank than with a high cost credit lender.

"You can't really mess with the bank. They can draw your money basically. That's where your money goes. Your wages, everything. They can take all they want. It's their money, like." (Male, 18-24, payday loan customer)

Others seemed to think that banks encourage people to get into greater levels of debt than high cost lenders and have hidden costs:

"She typed away and said, 'Oh, we can give you £4,000,' and I was like, 'I don't want £4,000. Can I just have the £50?'" (Male, 45-54, payday loan customer)

"Well, what my dad's told me is mostly that they've got hidden costs. Because I've heard a lot now on these adverts about PPI, personal protection, so it might be hidden costs within the bank as well." (Male, 25-34, rent-to-own customer)

FLEXIBLE PAYMENT PLANS

For many customers having flexible repayment options is a very attractive feature of high cost credit products. Flexible repayment can help people to manage their money. For people with precarious incomes or indeed for people who find it difficult to hold on to money, having the flexibility to choose how to repay means that they can reduce some of the stress that might be present in borrowing.

"You can have it weekly, fortnightly, monthly, however you want to pay it, to fall on a certain day. So I wanted mine to be paid fortnightly on a Friday, which is when we get paid. So because I got it on that Friday, we were due to get paid the Friday after." (Female, 45-54, rent-to-own customer)

"I just needed the £850 for a few weeks, or as my partner did, needing that £400 for two weeks. It's nice to be able to just pay it off and know that they're expecting it. You've told them, 'Look, I'm getting money on December 18th, it will all be cleared, so I just need it. That's really nice." (Male, 45-54, payday loan customer)

Among home credit customers, particularly, many also spoke of the flexibility of their loan agents when they were unable to repay their loans and this was very highly valued.

"I can go to them, and I can, you know, not a sob story, but tell them how it is, and they're like, 'Don't worry about it, you know.' Like [my loan agent] said, 'Don't worry about it, it's not the end of the world, if you can't pay your loan this week-,' but if I did that in the bank they'd go, 'Piss off,' you know, type of thing." (Female, 35-44, home credit customer)

'FOR PEOPLE LIKE ME'

All the above factors mean that when people see high cost credit products they conclude that it is 'for people like me'. High cost credit products are providing people with access to the cash and goods that they need, in a way which is quick, easy and convenient, and which often feels affordable, at least initially, in the context of weekly outgoings. People also understand high cost credit providers as being more accepting of bad credit, of those with no credit history, and of those who are unemployed or have low or precarious incomes.

As a result people who consider themselves to have those characteristics often choose to go straight to a high cost lender. Indeed for some people it may be the case that it is, indeed, their only option. The overall perception of high cost credit as the most appropriate option is frequently reinforced and validated by the choices of family and friends, 'people like me', to also use high cost credit.

"It was the only way you could get it. It was the only way you could have money. I probably wouldn't have been able to have had a loan and stuff. I was a single mum, we had a mortgage, two kids in tow, you know, I probably wouldn't have been able to have had enough money to, sort of, say I could have a loan." (Female, 45-54, rent-to-own customer)

"They just wanted to know my income, what I spent out of my income. Regardless of whether you're working or on benefits, that doesn't make any difference to them. If you've got dependants. That's basically all they asked me. So, proof of benefits or just like the letter. So, just showed them that. Proof of my address, my passport and that was that." (Female, 45-54, rent-to-own customer)

A SIMPLE CHOICE

Ultimately, from the putative world of choice open to consumers, the majority of high cost credit customers feel that in reality they have a relatively simple decision to make, often from an extremely limited set of options.

The influences on choice, from social norms and personal relationships, to attitudes and beliefs, in conjunction with financial capability, personal circumstances and the accessible market offer, all combine with our natural tendencies to make short-cuts in decision-making.

For each theoretical option, people are rapidly and often sub-consciously weighing up the answers to dozens of questions and testing products against their own personal values and beliefs. The perceived need to shop around can be reduced by prioritising trusted recommendations or repeat borrowing, for example. Advertising, media portrayals and word-of-mouth can also help to rule options in or out based on things such as brand familiarity, or the perception of certain lenders and products as 'risky' or not for 'people like me'. Options are further reduced by consideration of what is affordable and accessible in practical terms.

"I think it was neighbours in the street telling me about them, and I'd get in touch with them, and they'd come and give me the money, it was as easy as that ... [I didn't look into other options], not really, because I've got bad credit. It was just one of the only options really." (Female, 25-34)

Often, by this stage, there are few options remaining. It can effectively negate the need to understand and compare the terms on which different products are offered, and easily enables a post-hoc rationalisation of why there was no detailed comparison of options. This is particularly the case if the customer needs to use multiple lines of credit for different purposes. In essence, a decision that could be hugely daunting, if made 'rationally' with detailed investigation and consideration of all options, can become incredibly simple.

the impacts of borrowing

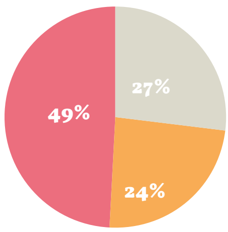
Not all high cost credit customers experience negative impacts as a result of borrowing. Credit can be a useful tool for smoothing over short-term bumps expenditure, or allowing a person to spread costs to more affordable levels over a larger period of time. However credit can be alluring and dangerous when it lulls people into higher levels of expenditure than they can cope with. It can also be particularly dangerous when people who are struggling to make ends meet use it because it is the only option for them to survive in the short-term, even though it can add to outgoings in the longer-term.

MANAGING PAYMENTS

Experiences of borrowing and debt inevitably vary hugely, from those who have found useful and affordable ways to manage their finances over the longer-term or to deal with a short-term crunch, to those who have found themselves in a spiral of rising debt. In total, however, half (51%) of high cost credit customers have experienced difficulties in making repayments on at least one loan (see Figure 33). A quarter (27%) have experienced problems on more than one loan.

FIGURE 33
Difficulties in making loan repayments

Base: 103 customers who have taken out high cost credit in the last 12 months.



Yes – on more than one loan
Yes – on one loan
No

The type and severity of difficulties also varies hugely between customers. For most it will have been a relatively simple case of having to postpone a loan repayment occasionally, often with the agreement of the lender. In other instances, people find that that they are facing longer-term problems in making their payments but again, solutions such as reduced payments can often be negotiated with supportive lenders. Of those who have had difficulties, 79% missed one or multiple payments and one-third have negotiated a reduced amount (see Figure 34).

"If I haven't got money or if I'm a bit struggling, she'll say, 'Alright, when can you do it? Not a problem." (Female, 45-54)

"There was one week I forgot to make a payment but they've got ways around things. They do a re-write which means you've got an extra week on how long you're paying for cos obviously you've missed that week. You're not going to be in trouble straightaway cos you've missed that week." (Female, 18-24)

"They were understandable [sic]. They said, 'What can you pay?' We just said, 'What's the minimum you can accept?' They were like £5 or £10 a fortnight. I said, 'Are we okay to pay that for now until we can make the payment bigger?' ... They didn't even charge us any interest because of the situation we were in and because we were paying it and it's consistent every fortnight." (Female, 35-44)

People who use home credit are more likely to have experienced difficulties in making repayments generally and significantly more likely to have experienced difficulties repaying multiple loans. 69% of home credit customers have experienced problems repaying, 44% on more than one loan[1]. Age also appears to be a factor; 63% of people aged 25-44 experienced difficulties repaying one or more loans. This compares to 16% of people aged 18-26 and 36% of people aged over 44[2].

A smaller proportion of customers find themselves in serious difficulties. A fifth report having had a County Court Judgement (CCJ), eight per cent have had their debt written off, and four per cent have been declared bankrupt. In total, just over one-fifth have agreed a formal plan with their creditors to pay back their debt (see Figure 34). These include a combination of Individual Voluntary Arrangements, Debt Management Plans, and Consolidation Loans, as well as some who are unable to identify the type of repayment plan.

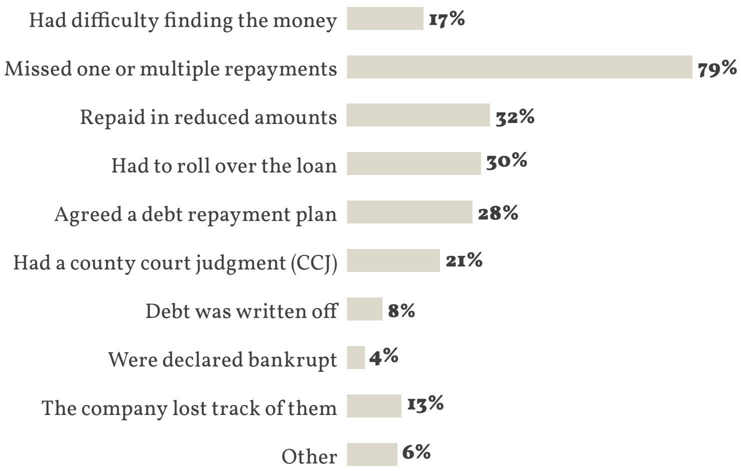
Finally, there is also a group of customers who have faced difficulties in repaying their loan and have lost contact with the company. Typically this includes people who have moved house or married and changed name, and failed to inform the lender. Often by staying off the electoral roll it is difficult for them to be tracked down.

"I moved here, six years ago. Obviously, because I got married, so my name had changed and a different address. So I applied online and the agent came round and started again ... I don't get letters or anything about the other one now." (Female, 45-54)

1. *Base: 39 people who have used home credit in the last 12 months*
2. *Base: High cost credit customers in the last 12 months. 13 aged 18-24; 63 aged 25-44; 27 aged 45+*

FIGURE 34
Types of repayment problems faced

Base: 53 customers who have taken out high cost credit in the last 12 months and have ever experienced difficulties in making repayments.



"I moved addresses, it must have been about five times in about two years, because my mum's house burnt down when I was living there, so we had to move out of that house ... I never heard from the bank again. I was brave enough to give my details to the electoral register this year just to see if anything would happen, and I've heard nothing up till now." (Male, 25-34)

For some customers, repayment problems result from fluctuations of income or unexpected shocks, but they can also come about because the loan repayments were always going to be a financial stretch.

Financial overreaching can result from people not fully internalising the true cost borrowing, in some cases this is because they did not have a sufficient understanding of the interest rates or generally have poor financial literacy. In some cases customers admitted that this was because they hadn't paid attention to information or warnings:

"I can't actually say that they didn't tell me. I just probably wasn't listening ...but then, when all the paperwork came through and I saw, 'For Christ's sake,' you know? 'I'm paying it for the rest of my life.' I mean, it was quite a substantial amount of money." (Male, 45-54)

In other cases people have both paid attention to the interest and understood it and yet decided to take the loan out anyway because they either felt they needed or wanted to borrow enough that they would take the risk.

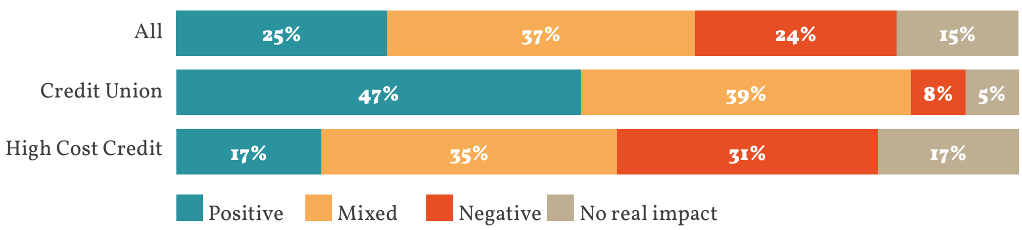
PERCEPTIONS OF THE BORROWING EXPERIENCE

Despite the high levels of missed payments only 31% of high cost credit customers characterise their experience of borrowing as flatly 'negative'. This indicates that struggling to repay does not necessarily mean a bad experience of borrowing.

Figure 35 shows how high cost credit customers evaluate the overall impact of borrowing on their quality of life, in comparison to credit union customers. High cost credit customers are significantly more likely to have had negative experiences

FIGURE 35
Customer perceptions of impact of borrowing, by credit type

Base: 103 customers who have taken out high cost credit in the last 12 months and 38 customers who have taken out a credit union loan in the last 12 months.



of debt than those who have taken out a loan from a credit union in the last year, almost 50% of whom characterised their experience as 'positive'.

Overall experiences of borrowing are shaped more by the way that people are treated by their creditors and the financial pressure that they are under. Those who have had problems with repayments on one or more loans are more likely to report negative impacts of borrowing (54% more than one loan; 36% one loan) than those who have experienced no difficulties (16%)[3].

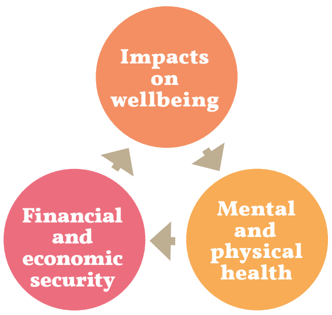
IMPACTS ON WELLBEING

"Every night. Terrible. Wondering how you're going to pay it back and what you're going to do tomorrow." (Female, 35-44)

For those who cannot manage the burden of debt or who struggle each week to make ends meet, borrowing can have wide ranging and potentially serious impacts on issues like health, financial security and relationships with others. Importantly all of these issues can exacerbate one another and create multiple problems for customers. This seems particularly to be the case for those people who are already vulnerable.

Lara's story (see box) is extreme but is a good indication of how serious the impacts of debt can potentially be and why it is so important that where vulnerable people in debt come into contact with services they are referred onwards for advice.

The impacts of borrowing can be broadly grouped into three categories: mental and physical health; social wellbeing; and financial and economic.



Overall, 57% of high cost credit customers report that they have experienced at least one adverse impact as a result of their borrowing (see Figure X). This rises to three-quarters (76%) of those who live in a household where someone has a limiting long-term illness or disability, compared to under half (46%) of households where this is not the case[4].

Experiences of adverse impact are also closely linked to the number of loans held, the amount of debt people have experienced, and whether or not they have experienced difficulties in making repayments (see Table 12).

TABLE 12
Proportion of high cost credit customers experiencing at least one adverse impact as a result of borrowing and debt

Base: Customers using high cost credit in the last 12 months

	Proportion experiencing at least 1 adverse impact
Number of loans/ credit agreements currently held	
None	31%
One	55%
Two or more	71%
Current amount of debt	
£1,000 or less	43%
£1,001 - £4,999	81%
£5,000+	77%
Highest ever amount of debt	
£1,000 or less	33%
£1,001 - £4,999	70%
£5,000+	79%
Difficulties making repayments	
No	32%
On one loan	72%
On more than one loan	89%

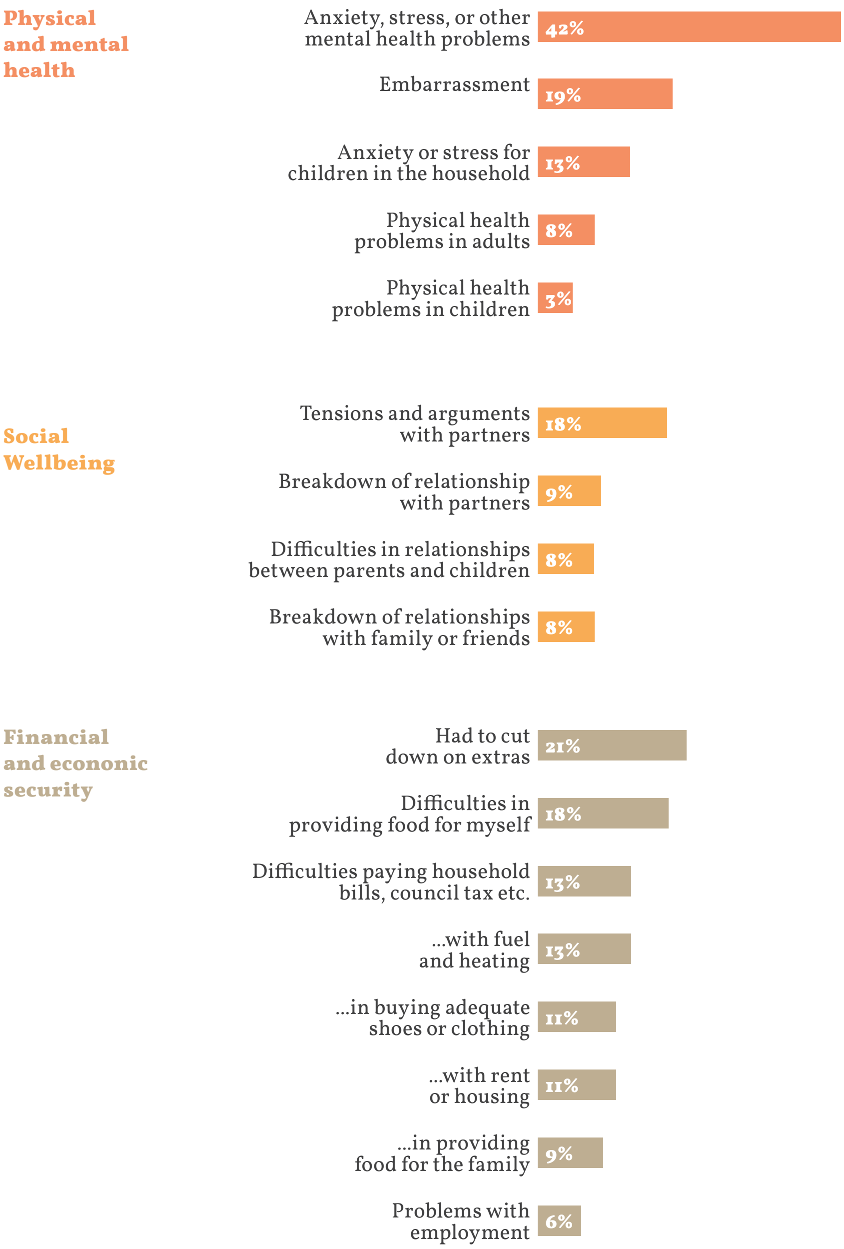
Financial and economic security

Some households find that the economic pressures of debt chip away at their ability to maintain their standard of living or, in some cases, pay for food and bills (see Figure 36).

3. *Base: High cost credit customers in the last 12 months. 28 experiencing difficulties on more than one loan; 25 experiencing difficulties on one loan; 50 experiencing no difficulties.*
4. *Base: Customers who had taken out high cost credit in the previous 12 months – 47 whose household contains someone with a long-term disability or illness; 56 people whose household does not*

FIGURE 36
Impacts of borrowing

Base: 103 customers who have taken out high cost credit in the last 12 months



Perhaps unsurprisingly those people who have experienced difficulties repaying more than one loan[5] are also particularly likely to have difficulties paying rent (21%) paying bills (32%) and providing food for themselves (43%). 36% of people who have had difficulties with more than one loan have had to cut down on extras as a result of debt.

Difficulties with rent or housing are also significantly more likely to be reported by those who rent privately (22%) compared to those who are in social housing (4%)[6]. This perhaps reflects the often higher rents in the private sector, and the lack of housing support schemes.

5. *Base: 28 high cost credit customers in the last year, who have had difficulties paying more than one loan in the past*

6. *Base = High cost credit customers in the last year – 37 in privately rented housing; 54 in social housing*

Households that include people with limiting long-term illnesses or disabilities are also more likely to have experienced impacts of debt than household where that is not the case. This includes difficulties providing food for themselves (30% vs. 9%), difficulties with paying household bills (26% vs. 2%), paying for housing or rent (21% vs. 2%), and fuel or heating (23% vs. 4%)[7].

In some cases the coercive tactics used by lenders can mean that people prioritise paying off a loan over paying their bills. For others the debt burden simply perpetuates a cycle of borrowing in order to make ends meet.

"So they just help you out, don't they, but then you get stuck in that loop where you pay them back on your payday and, say, they're taking £200 off you, that's £200 off your wages gone already. So I found out that I was paying it back and two days later I was asking for more money. It was like a vicious circle." (Male, 35-44)

"I never had the money, paying my rent and pay all my bills, so, Peter got robbed to pay Paul ... I'm always behind on my gas and electric." (Male, 45-54)

"Council tax isn't prioritised, it's their last thought. When they have their tele and someone is knocking their door every week they're going to pay that person." (Expert, Housing Association)

For some, the experience of debt can further worsen their financial situation by impacting on their employment. Here, the close connections with mental health impacts are evident as the stress can cause people to take time of sick or even lose their job.

"When you're stressed out, it means you do take it out on people, and it's just not nice ... I was off [work] for six months." (Male, 45-54)

Mental and physical health

Debt can have a deep impact on people's feelings of self-worth, inspiring feelings of shame and embarrassment. It can also cause stress in people's lives and take a toll on mental wellbeing, ranging from low-level worrying, to moderate anxiety, or even severe depression. 42% of high cost credit customers report that adult members of their household have experienced anxiety, stress or other mental health problems as a result of being in debt (see Figure 36).

This is more likely in households with only one working adult (55%) or no working adults (41%) than where there are two working adults (9%)[8], suggesting that this is perhaps tied to a higher risk livelihood or because the pressure to make repayments is on just one individual.

Experience of stress or anxiety is also related to the level of debt an individual has - among those who are currently in debt of £5,000 or more 69% report that they have experienced emotional and psychological strain as a result of debt. This compares to 26% of those who currently owe £1,000 or less[9]. Those who have had difficulties repaying more than one loan are significantly more likely to have experienced anxiety or stress (79%) than those who have had difficulties on one loan (52%) or not experienced difficulties at all (16%)[10].

"[I'd] stress out, panic, shake and then completely ignore it for a couple of months. So, yes, I did go through the whole, like, avoiding debt thing ... I think now that I'm a bit more upfront about it and now I acknowledge it, I'm a lot less stressed out because I'm not hiding things from people and I think a lot of the thing is the reason I hid it was because there was a massive shame of the fact that I had debt and I did feel ashamed." (Female, 18-24)

7. Base: Customers who had taken out high cost credit in the previous 12 months – 47 whose household contains someone with a long-term disability or illness; 56 people whose household does not

8. *Base: Customers who had taken out high cost credit in the previous 12 months – 61 whose household has no-one in employment; 29 whose household has one person in employment; 11 whose household has two people in employment*
9. *Base: Customers who had taken out high cost credit in the previous 12 months – 13 who currently owe £5,000+, 46 who currently owe £1,000 or less*
10. *Base: Customers who had taken out high cost credit in the previous 12 months – 28 have had difficulties repaying more than one loan; 25 have had difficulties repaying one loan; 50 have not had difficulties repaying*

Evie

She got in to trouble with debt in her early twenties when she had her first baby. In order to pay for things she took out multiple store cards: "I went on a rampage with store cards, you know, to try and buy baby stuff, and all that stuff."

Evie and her husband then went on to consolidate their loans in order to make it easier to take a mortgage. Evie continued to make ends meet with doorstep loans and at one point her repayments reached £80 per week. After divorcing her husband, and struggling with debt, Evie slipped into arrears on her mortgage and bills. "I've got a charging order on my house now, and that's the water."

Evie has found that the debt has taken a toll on her mental health and she could no longer work due to anxiety and depression. It has also affected her relationships: "I don't speak to my mum and dad because every time I speak to them, they reckon I want money... I struggle from day to day. It's affecting my friendships with my friends as well.

Lara

Lara has learning difficulties and finds it difficult to say no to credit, particularly because she likes to buy things for her children that she otherwise couldn't afford: "my kids say, 'Oh, mum, I want a laptop', or an X-box or whatever, and you're like, 'Well, okay'". Lara fears that her children will be bullied if they don't have brand name products.

Lara explained that debt was cited by social services as a factor in the decision to take her children into foster care. Using a combination of different products she was £6,000 in debt before a worker at her local credit union realised she might be in trouble and referred her to advice services. Lara has now been given a debt relief order.

"It got to a point where obviously the creditors were after me and I kept having phone calls and I had a near breakdown because of it."
Female, 35-44

In some cases the stress of debt also contributes to exacerbating existing physical and mental ill-health. As with financial and economic security, people who live in a household where someone has a limiting long-term illness or disability are more likely to cite both physical and mental health problems as impacts of debt. 15% of those people that have a long term illness or disabled person in the household state that debt has had a negative impact upon their physical health, compared to 2% of those who do not have a disability[11].

"My health was deteriorating. The worry of the debts was making me worse. Stress plays a major part in lupus flares. And life was changing and you felt like you were drowning. It brought on a lot of psychological problems cos you feel like maybe you're the problem. If you weren't ill and were working – if there were two wages coming in, things would be better." (Female, 45-54)

"I've got bipolar, and because of the spending, because I was really bad, I could have a debt in and I'm like, 'Right, I've got the money there,' and I think, 'No, come on, kids, we'll go out shopping'." (Female, 18-24)

11. *Base: Customers who had taken out high cost credit in the previous 12 months – 47 whose household contains someone with a long-term disability or illness; 56 people whose household does not*

Social wellbeing

Negative experiences of borrowing can also undermine relationships with loved ones. 18% of high cost credit users say that debt has placed a strain on their relationships at some point. This can happen as a result of disagreements over money or as a side effect of stress. It can damage relationships between partners, with children and with friends.

"I don't speak to my Mum or my Dad because every time I speak to them, they reckon I want money. You know, it's just-, the only thing that I'm here for now are my kids. I struggle from day to day. It's affecting my friendships with my friends, as well." (Female, 35-44)

"Sometimes it makes you feel a little bit stupid, like if you did take out a payday loan, it's obviously not the one, the choice to go for, so you feel embarrassed that you were ignorant ... I think it's sometimes, it's also to do with your family as well. It's like my sister, and her husband, they've got their own business, they've got their own house, they built their own house, they've got this, and then like I'm the poor one of the family, you know, you try to keep up." (Female, 25-34)

The most common problem is tension and arguments with partners. This can be simply as a result of the pressure and need to make repayments, or because one partner has borrowed without the other's consent. The negative impacts of debt on relationships seem particularly acute among socio-economic groups ABC1. 33% of this group felt that debt contributed to tension and arguments with partners compared to 12% of C2DE customers.

"When he ended up finding out about the loans and stuff it was beyond a joke ... He went absolutely berserk." (Female, 18-24)

As with many of the other negative impacts of debt, tension and arguments with partners are also more likely to have been experienced by people who currently have two or more loans (37%), compared to those with one loan (7%) or no loans (15%)[12], and when the amount of debt is over £1,000 (33%), compared to those owing less (9%)[13]. This suggests that stress and relationship breakdown is more likely among the over-indebted.

Debt can also impact upon the relationship of parents with children and on their sense of social inclusion. Some customers believe that debt has caused problems for their children who feel excluded because their parents are too financially stretched to be able to afford items that would make them feel that they 'fit in' with their peers.

"I mean, it's, like, if you haven't got the right trainers on, or if you haven't got the right coat. You know, my daughter, she goes to school with no coat on because she doesn't want them to look at her coat and think that she hasn't got a named coat." (Female, 35-44)

12. *Base: Customers who had taken out high cost credit in the previous 12 months – 13 who have no loans; 55 who have 1 loan; 35 who have two or more loans*
13. *Base: Customers who had taken out high cost credit in the previous 12 months – 40 who currently owe £1,000+; 46 who currently owe £1,000 or less*

Further, debt can lead to adults deliberately excluding themselves from society. A few customers told of how after moving house they did not register for the electoral roll, for fear that the debt would catch up with them.

Yet, while getting in to debt can have very negative impacts upon people it is also important to note that some people subsequently manage to turn this into a positive experience. As we have seen elsewhere some people take their experiences of debt as an opportunity to learn from the experience, find better ways to manage their money and teach their children how to be better with money.

seeking help

Not everybody who uses high cost credit will need to use an advice service. Nonetheless, almost one-third of high cost credit customers have used an advice service in the last five years (see Figure 37).

Not using advice services

Of those high cost credit customers who have not used advice services, 46% said that they did not think that they were in bad enough debt to warrant it. Many customers can afford their repayments and are not in significant levels of debt to other lenders or behind on their bills. Although over half of customers have missed at least one payment, or struggled to make it, this is often only a short-term problem which they are successfully able to resolve. In theory, the majority say that if they were in enough debt then they would be happy to go and seek help.

"If it's a problem that I can't solve then I will ask for help." Male, 25-34

However, for others, there can be a sense of stigma around debt and this can be a significant barrier to seeking advice – people don't necessarily want to admit to themselves or others that they need help. 10% of high cost credit customers said that they would prefer to deal with their problems themselves and a further six per cent felt too embarrassed. A common pattern of thinking is that if you have caused your own problems, it is your responsibility to solve them. There is also often a sense of embarrassment that debt has become such a problem – people feel that they should have sought advice earlier, rather than allowing problems to mount up, and so the cycle perpetuates.

"I don't know, I just don't think I'd like to [go to advice services]. It's all loads of different people that you know-, about my money, do you know what I mean? I'm probably too proud to bloody admit that I don't know what I'm doing with my money, I'm wasting it all the time." (Female, 25-34)

At the same time, there are those who deep-down know that they need help but simply find it "easier to bury your head in the sand sometimes".

"My mess, I was the one who got into that situation, so obviously it's up to me to get myself out of the situation, in my eyes...I don't like asking for help. You've got to help yourself." (Male, 35-44)

"It was embarrassing more than anything because I knew I was in all this debt and I am so young. I should never have been in debt like that." (Female, 18-24)

Under the weight of stress and fear it is easy to see why many people opt to put off dealing with problems brought about by borrowing.

"Some of the letters you get can be quite intimidating as well, quite threatening, to reply to. If you try and phone some companies up they put you on hold for ages. And you don't feel like you're getting anywhere. So it's easier to let the letters pile up or instantly throw them away and pretend it's not happening." (Female, 55-64)

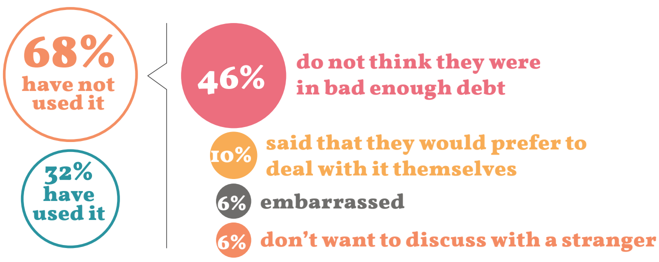
This sense of responsibility and shame can make it difficult to know where to turn and some don't even feel comfortable talking to their loved ones about their problems.

"I think your family are really the last people you want to go to as well. You don't want to let them down and you want to find other ways of being able to manage it yourself without relying on other people." (Female, 18-24)

"My parents, at first, when they first started questioning me about it, I got very defensive, which is obviously the sign of a child hiding something. I got really defensive and, you know, was just: 'I'll sort it out myself,' and I was really stubborn." (Female, 18-24)

FIGURE 37
Experience of advice services in the last five years

Base: 103 customers who have taken out high cost credit in the last 12 months; 70 customers who have taken out high cost credit in the last 12 months and used advice services in the last five years



Celeste

Her crisis point with debt came when her debt became so bad that she risked losing her house: "Then I went, like, totally off the rails and hit rock bottom and then all this stuff came in. I didn't do anything, to be honest, until I got a letter saying that they were going to take my house off me. Then I thought, 'S**t, I have to do something about this.'"

Ben

There was no particular trigger point for finding help, it was more about the quantity of debt: "I was just-, it was just trying to sort my life out. I thought, 'right', you know. My biggest problem at this time [was] that I had £49,000 in debt, you know, and like I say, yes, I hadn't even spent half of that, you know? So that was my biggest worry."

Clearly, the perceived stigma around debt is unhelpful because it means that people avoid reaching out to people sooner.

For some of those who have not accessed debt advice there is also perception that it would not have much of a positive effect on their lives, or that the advice agency would be unable to help. When people are borrowing simply to make ends meet, it can feel futile to ask for help.

"They reduce your payments and then at the end of the day you're still paying back for years anyway." (Female, 35-44)

"I don't know, I was expecting them probably to just turn round and say, 'Start paying it, there's nothing we can do,' sort of thing" (Female, 45-54).

Other barriers to accessing advice are more practical. There are, despite, the promotion of debt advice services, some people who still don't know where to turn if they are in trouble. This suggests that there are further opportunities to intervene by signposting people to debt advice services. Others find that local services are so busy that the waiting times of days or weeks is off-putting. It can also be difficult for those in work to make the available appointment times.

> **"I wouldn't really know where to start if I got myself into a financial mess."**
> **Female, 25-34**

"I nearly did once but trying to get an appointment was just a nightmare and I just didn't bother in the end." (Female, 35-44)

"You don't know where to go for help. It's not advertised … [At college] I think they only give you advice for what you turn to afterwards, which is alcohol and drugs, cos you don't know what else to do." (Female, 18-24)

Usually, if you're going to see somebody about debt they're only working at a specific time. I think it's a Thursday morning. Well if I can't get in that time bracket you've got to wait until the following week. So they need to think about widening." (Female, 35-44)

In addition to not knowing about advice services there is also misinformation about the situations people have to be in to receive help:

"There is people out there that you can go to for advice and this and that, but you've got to be in a certain amount in debt then, and that's no good because they say basically you've got to get even more into debt before you can have help." (Female, 35-44)

Ultimately, for many the decision to seek professional advice comes at a crisis point - but people have different crisis thresholds. While some will seek advice relatively early, others can fall into a lot of debt before they will seek help.

Using advice services

"I can't even put it into words. So grateful to them because they've given me the tools I need to negotiate … If I get, you know, a letter saying, 'Well you haven't paid this,' I don't freak out about it, you know, and it doesn't stress me out because I know that I can just call up StepChange and it will be fine because they will have the right advice and they always have. They've never failed

Amber

She is a young woman who got in to debt in her late teens/ early 20s. Bills began piling up and she tried to just ignore them. Eventually her father stepped in to try and help: "my dad kept seeing these bills letters and he was like, 'What are they for?' I was like, 'God knows.' In the end he said, 'You've got to do something because I didn't start all this debt thing until I was, what, 30-something. You're 20… then he took me to Citizen's Advice."

Amber was worried that the people at citizen's advice would judge her but she found that her advisor had once been in a similar position with debt: "It's nice when you see people, like, not riff-raffs or people snobby, but it's nice to see people like you. They're not going to look down on you… She was just down-to-earth and laughing and giggling. 'Bloody hell [Amber], this much debt? What are you like?" It was like that and I felt at ease."

me. It was brilliant." (Female, 18-24)

Advice services are often valued for the services they provide and many high cost credit customers feel their experiences of debt advice had a positive effect on their financial welfare and overall well-being. It is rare for people to have negative experiences but some misconceptions do remain. For the majority of people advice services are a positive place to turn in times of great stress.

"Now I've been to CAB and I know there's something I can do about it, whereas before I was just burying my head in the sand, sticking my head down there, 'Ah, go away, go away.' I've gone to CAB now, and they're pretty reassuring." (Female, 45-54)

"Some of the advisers, they pick and choose what advice they give you. The same as the Job Centre don't tell you about thing's you're entitled to. They lie. It's harder to find out the information you really need." (Female, 45-54)

"I think we're lucky on the estate because I wouldn't feel embarrassed going into [the advice services] and you know loads of people in there. So I don't think anyone feels stigma going in there .... What pushed me to it was debt letters ... bank fees ... I literally ended up where I had no money." (Female, 35-44)

Many people feel more confident accessing these services if they are referred by someone they trust. Family, friends and community workers can be helpful in referring people to advice services. Peers, then, seemingly have a strong role to play in mitigating some of the worst impacts of borrowing by helping people to seek advice sooner.

People also stressed that having non-judgemental advisors was important to them. In particular, there is preference for seeing advisers who understand the situation that clients find themselves in, because they have it experienced too. Family, friends and peers are the most trusted sources of information and peer-led models of advice and support are clearly attractive as a proposition.

"[Someone who has] been there and go themselves out the other side." (Female, 45-54)

"They need to train up the average person to give out the information in the correct manner, so that it can be passed on."
Female, 45-54

"I'd rather listen to everybody else here than ever listen to anybody in the Job Centre or Citizen's Advice. People who've actually been through it." (Female, 45-54)

The advice that people receive is not limited in its impact to the recipient. Information and guidance that people receive can filter down and become community knowledge. For example, some pieces of 'legal' knowledge have filtered throughout communities to the point where it has become common knowledge that, for example, water is not a priority debt and it cannot be shut off, or that paying at least £1 on a debt reduces the risk of bailiffs or being taken to court. People are also aware that doorstep loans can be written off if the agent approaches the customer in the street.

"They're not supposed to ask money from you in the street ... he's not allowed."
Female, 45-54

Furthermore many people who have received advice reported that they then felt well placed to offer advice to friends and family. This demonstrates how recipients of advice services are potential agents of change in their own communities.

"I have actually recommended the advice thing here. I have sent people here. The other thing is people can see you struggling .... I've done it with my mates. 'I'm sick of being skint'. 'Tell me about it'. 'can't afford to pay my rent, or water or TV license'. It's just a simple comment – 'I can't afford to pay my TV license. I've been dodging them for the last six weeks' and you'll say to somebody, 'go and talk to them'." (Female, 45-54)

making a change

Interviews with customers of high cost credit and experts from a range of sectors led to many spontaneous discussions around what people think should change in order to improve access to affordable credit. Co-production sessions following the main research phase then bought together a selection of customers who had participated in the research with representatives from national and local government, housing and advice sectors, the lending community, other activists, to discuss the findings and further explore opportunities to tackle the issues uncovered.

The over-arching priority is to increase access to more affordable credit options, reducing the high levels of premium customers currently pay. Yet at the same time, customers and experts alike strongly feel that there needs to be far more emphasis on prevention and education, starting with children in school, right up to the point of taking out a credit agreement. Some customers are aware of more affordable alternatives such as credit unions or Moneyline, and are clear on the benefits they bring. Yet there is also a strong feeling that this needs to happen hand-in-hand with improved promotion of those alternatives. It must be supported by better promotion and increased availability of advice services for those who need it. A few customers and stakeholders also advocate for stronger controls on borrowing for certain groups.

FIGURE 38
High cost credit customer priorities for change

Access to and promotion of more affordable credit options
Education
More protection for young and vulnerable people
Warnings at point of purchase
Better promotion of advice services

EDUCATION

The importance of education is highlighted repeatedly. Young people in particular talk about the importance of better financial capability education in schools and colleges.

"You go into university and you get yourself into loads of debt, but you don't really know what debt is, you know? It's too easy, I think… You're never, ever taught those sorts of things and I think it's imperative that if you're going to allow eighteen year olds to borrow, that you educate them, that you tell them exactly what they're getting into." (Female, 18-24, payday loan customer)

There is also much support from stakeholders. Several experts, including from credit unions and the advice sector, would like to see a national mandate for financial education in secondary schools, and supports the idea of getting young people thinking about money management before they leave home or enter employment, helping them to better understand how money works.

"A lot of kids, all they see is there parents paying for things on cards. They don't understand what a debit card is, what a credit card is. They don't understand that a debit card takes the money from their bank account, if there's not enough money in the bank it's not going to work….it would be really helpful for kids to understand basic money management like that, how money works in the real world, budgeting" (Expert, credit union)

"Financial literacy is important. A lot of schools are doing more on this but it should be essential to bringing up kids that they understand these issues. It's about two things; dealing with the crisis points and stopping the pipeline" (Expert, Welsh charity supporting women into employment)

This is a sentiment similarly echoed by some older high cost credit customers, concerned for the next generation.

> ***"It's too easy. It's always in your face. I think in schools they should teach them a bit more about if you borrow money you've got pay it back and it's this interest rate and this"***
> **Female, 35-44**

"I think that's where a lot of it goes wrong, like you said, in the schools, there should be something out there that teaches the youngsters how to live within their means because it's so, so easy for kids… because a lot of them are naïve, they go out there, I want to get my first place, and like I said, places like [rent-to-own store], just suck you in and once you're in there it's hard to get out." (Female, 35-44)

Regularly highlighted as an effective feature of financial education, is the emphasis upon real stories and focus given to situations relevant to young people. Ideally it should also be delivered by young adults slightly older than the students, who are able to speak from first-hand experience while remaining credible.

An expert in financial inclusion highlighted MyBnk[1] as a good example of a project using peer-support effectively. This includes Money-Mentors, university students, who have first-hand experience managing their money at university, talk to younger pupils in schools and colleges. A similar programme is run in Wales by DOSH[2], winners of the Lloyds banking group's Money for Life Challenge 2015. As apprentices at the Intellectual Property Office, they were entered into the challenge where they were to come up with a project to improve financial capability in their local community. They work to provide peer-to-peer money management lessons in schools, colleges and universities in the Newport area.

"What people need to be shown is the reality of it because that's what going to shock people. They're going to be looking at it and thinking 'well I don't want to end up like that. I don't want that on my back constantly, being in debt and everything'. It's the shock of seeing what it can do to you that's going to make you think about it." (Female, 18-24, rent-to-own customer)

From personal experience, young people are keen to emphasise that the information is particularly important in the lead-up to leaving school and potentially leaving home for the first time. Earlier financial capability lessons must be reinforced at this stage, and the services available to new college and university students actively and effectively promoted.

"You could advise people in sixth form before they go to Uni and stuff. Obviously a lot of people do get into debt when they go to Uni cos they don't realise how much money they're spending cos they can't afford the life. It's an expensive life, Uni life." (Female, 18-24)

"I think it would be better as well if people who spoke to you had been in that situation so that they could say 'listen, this has happened with me. I did this, this and this,' so you can relate to it more. Rather than somebody that's on eighty grand coming and talking to you about how to manage your money." (Female, 18-24, payday loan customer)

The value of peer support extends beyond school and young people. Some of the high cost credit customers we spoke with highlighted how they are more likely to listen to money advice from people 'like them', who have been through similar troubles but turned around.

Nonetheless, one expert in financial inclusion points out that for the community champion model to work well, they need to get into the right networks, via the right channels, in order to reach the different segments of the community. As such the community champion model can also be extremely resource intensive, with the champions difficult to regulate, monitor and train.

There must also be caution against an over-reliance on improving financial capability generally, as it does not tackle wider structural problems with the market and other services, and implies that sole responsibility for a person's financial situation lies with the individual. Improving financial capability and education can only ever be one part of a more holistic approach to tackling the issues around high cost credit use.

ACCESS TO, PROMOTION AND THE OFFER OF MORE AFFORDABLE CREDIT OPTIONS

It is clear that many high cost credit customers are unaware of, or do not fully understand the offering of existing more affordable alternatives. Those lenders themselves and experts from housing and advice sectors tend to broadly agree that this needs to be addressed as a priority, through "long-term, continuous marketing of those products to change that".

Some experts also highlight that sometimes it is not a lack of understanding or awareness which prevents some customers from using more affordable alternatives, but that the products themselves fail to meet consumer demand as effectively as high cost options.

"There's also the group who I think do understand it but just prefer to use other forms of credit because of ease of access, because of their understanding of that, how it works, and it's always been available to them." (Expert, housing and community sector)

"I think if we're really to challenge people like [home credit lenders] we need to get on board with their business model and perhaps copy it in some way. Instead of just damning them and damning them, lets kind of take what they do really well, but with the social aspect of it, and make it really affordable to people." (Expert, housing association)

"When you look at the good money options, there's not one that competes ... when it comes to actually getting affordable credit, if you are that person on the internet at midnight on a Sunday, the only options you will find online are bad options." (Expert, public sector)

These disadvantages are similarly echoed by customers, highlighting how they can be less convenient and accessible in comparison with high cost lenders.

"The only downfall I can say about the credit union is it opens at twenty-five to ten ... it should open at 9 o'clock like the rest of them" (Female, 35-44, credit union customer)

1. http://mybnk.org/
2. http://ipo-m4l-dosh.weebly.com/about-dosh.html

There is also increasing impetus for credit unions to share best practice and have a more consistent core offering. This is supported by many from within the credit union movement in Wales, and also by others in sectors such as advice and housing who see first-hand the consumer confusion and misconceptions that can arise. Nonetheless, the credit union movement itself that there is not yet consensus on how best to move forward, and it is important to remain aware of "the two poles of the philosophical debate" in relation to the future of credit unions in Wales.

While at one end there is a drive for Welsh credit unions to be more commercially driven, operating on a more competitive basis with high cost and mainstream lenders, others argue this is at odds with the ethos of a credit union, which is that they should be local and focused on supporting the vulnerable members of the community, for example through outreach programmes in schools and prisons. The 2016 Credit Union Strategy for Wales may go some way to addressing the challenges faced but it is clear that both consumers and stakeholders from across sectors are keen to see a more unified approach.

Aside from increasing access to existing affordable credit products, such as those offered by Moneyline and credit unions, many are keen to see new products enter the market, including those which will help customers to improve their financial capability, demonstrate increased credit worthiness, or to develop a savings habit alongside their loan repayments.

Separately, better use of data is identified by some experts as having the potential to help lenders understand the needs of different groups of customers and potentially reduce the risks and costs of lending. Increased data sharing between housing associations, the public sector, support services and financial organisations, also has potential to inform the development of new products, improve measurement of financial health, and create better links between lenders and advice or support services.

BETTER PROMOTION OF ADVICE SERVICES

Mentioned by both customers and stakeholders in co-production sessions is the need for financial advice and information about how to access affordable credit and appropriate savings products to be given at key life stages and meeting/intervention points. This requires working in collaboration with partners across a range of services, including health services, schools and colleges, employers, the third sector, and lenders offering affordable credit and/or targeted savings schemes. This would create a more holistic approach and help to identify opportunities for early intervention with financial information and advice at crucial life stages including, pregnancy; young people leaving home; care leavers; students; new tenants; those facing unemployment; and bereavement.

Housing associations and health providers are frequently cited as being among the best placed to identify opportunities for, and deliver, early intervention. For example, moving into and furnishing a property can be one of the factors resulting in customers turning to high cost credit and even existing furniture packages offered by social landlords have limitations.

"My daughter's got [a furniture package] and it's a nightmare. We're trying to get all the furniture together so she can just give it back to them, but they won't accept an item at a time ... So she's got a two-bedroom flat with her and her kids, and she's got all this furniture piling up. She's got two fridges - I managed to give her my old fridge because I got a new one off a friend, so she's got that sitting there. She's got two double beds there, she's got two single beds there. We've got to try and get a washing machine now and a cooker and then she can just send it all back, because they're charging her, I think it's £20 a week extra on her rent for it." (Female, 45-54)

Experts and customers support pre-tenancy guidelines regarding furnishing. This could include either the offer of more affordable options, such as furniture packages from more affordable alternatives to hire purchase, social enterprises or furniture reuse stores. GPs, midwives and other health professionals can also help to signpost those at increased risk of financial problems, seeking financial advice and services.

One key barrier to implementing such policies, however, is the funding and resources available to such services to implement this. Methods which some housing associations employ to raise awareness and share financial advice, are the strategic use of gatekeepers in the communities, more 'joined-up' working between relevant organisations, and community 'champions'.

"How is it possible to maximise the market reach in communities? No point if only ten people know about it. Need to work with trusted local partners" (Expert, social welfare charity)

"It's those people, the familiar faces, that you train up to deliver the support in the community, because they can access the gatekeepers, they know what would work best to get the message across, whether it's coffee mornings or a knitting club or a children's playgroup. It's the people within the communities that change people ... you can have the slickest campaign going but people trust people in their community who they know. If you can convince one, in the community, to do that work, then they can convince 10 others." (Expert, housing sector)

It is not proposed, however, that housing associations operate as a "one stop shop". Rather that they, along with health services, employment services and other community groups should act as a "pivot" point, helping to identify people who would benefit from support, offering emergency help if needed, and then moving people on to organisations who deliver the longer-term appropriate support, "so that people can move on – so there's progression, a journey".

PROTECTION FOR YOUNG AND VULNERABLE PEOPLE

Some high cost credit customers, in particular, feel that young people, principally those leaving home for the first time or starting a family, should be more protected from making choices which may negatively impact their lives for many years to come. This goes above and beyond compulsory education. Young people themselves who are already juggling multiple loans and credit agreements, are the most inclined to advocate for solutions such as a cap on their total borrowing or stronger credit checks.

"So they should make it, literally, if you're over a certain amount, you shouldn't get any more loans. Like payday loans, you shouldn't get them if you're blacklisted or if you're having problems paying bills off anyway." (Female, 18-24)

"If you're younger there should be either a maximum that you can lend – say £500 – or they have to have a guarantor, or they have a lower APR." (Female, 18-24)

"I think partly people take out so much finance and things cos it's so easy these days. It's not like you've got to go into major stuff or your background just to take out money or anything. There's not like an age limit to it really – really they should start it at an age where they know you're going to be more responsible. You're going to have a family, be working, things like that." (Female, 18-24, rent-to-own customer)

However, it is not only young people who are singled out as needing protection. There are some customers who feel that there should be a broader clampdown, particularly on home credit, to prevent the targeting of vulnerable consumers.

> ***"They shouldn't be allowed to come knocking on your door, especially in vulnerable place."***
> **Female, 35-44**

"I think they should be stopped from doing it, I didn't like any loan should be given out on your doorstep." (Female, 35-44)

"To protect us from getting into debt like that, doesn't the cut-off need to be lower? Then they would go and find help. Because they would hit rock bottom and that is when you go and ask for help. When there is no other option ... You're worried when you start getting into debt but when you go to get help you are desperate and you are on your knees and there is no way out for you. So surely if you made the bit from starting to get into debt to being desperate and on your knees, their debts would be less." (Female, 35-44)

WARNINGS AT POINT OF PURCHASE

Recognising that there will always be a wide range of credit products available, and that their suitability for each individual will vary, customers and experts are also keen to ensure that sufficient information and warnings are provided at the point of final decision-making.

This includes an interest in pop-up windows when accessing internet sites and ensuring that a clear and concise summary of the necessary information is provided, alongside the more detailed versions.

"I know there's all the warnings and everything is actually there if you read through it. There has to be a condensed version because you know no one's going to sit there and no one's going to read through that, it's just not going to happen. There needs to be some sort of educational bullet points that are saying that you need to understand that you're paying this much back, this can happen, this, you know, and it needs to be in bullet points and it needs to be, like, just before you hit accept." (Female, 18-24)

"They need to. Like I said, a pop-up first. 'Do you realise when you sign into this now, this is what's going to happen? Do you understand that you've got to pay this back? Would you have enough left to see you through after paying this back?'" (Female, 45-54)

"Well maybe regulating the small print as well, because obviously like, you know, cigarette packets, obviously they've gone through quite a change where now they're going to be plain very soon. They might need some industry standard for small print now." (Female, 35-44)

ENABLING INNOVATION

In addition to those areas identified by both consumers and experts, there is one other priority for change which is frequently mentioned by experts seeking to challenge the market incumbents. Innovation is one potential route to tackling the issues and there are a number of examples of companies that have been set up with a stated social mission to reduce the cost of borrowing for sub-prime customers. However, many of those who are attempting to innovate in this space complain that there are significant barriers to entry.

In particular, they identify:

• The time consuming and cost-intensive processes associated with gaining regulatory approval from the FCA. Although the FCA's 'Project Innovate' is welcomed, most feel far more needs to be done to attract and support smaller innovators in the affordable credit market;
• Difficulties in accessing the payments system, where again, regulatory support for innovators is weak;
• Difficulties accessing the credit bureaux, including a lack of testing facilities and high associated costs;
• The challenges with raising the necessary start-up

capital. This covers a wide range of costs from raising sufficient funds to create a 'proof of concept' for social investors, the costs of gaining regulatory approval, to the costs of capitalising the business itself. Some innovators feel that social investors tend to view the sector as "toxic" and have been reluctant to engage;

• Raising and maintaining brand awareness, again partly due to a lack of sufficient marketing budget to compete against the incumbents, and also due to the cost of prime retail estate in target areas. The cost of acquisition is a major challenge. Marketing also needs to be balanced against the realities of what a small start-up service can provide.

• For some current high cost lenders there is also a disincentive to innovate due to the anticipated negative media response to any new product or service offered.

"The regulator is not set up for this kind of innovation. There were so many unexplained delays but you need approval to get backing and investment, and access to the credit bureaux."
Expert, alternative provider

"The cost of lending short-term, unsecured is incredibly expensive" (Expert, alternative provider)

"With [an alternative lender], it's quite difficult to actually market that and make people aware, the majority of people, customers are coming via word-of-mouth where a current user has informed them but that type of model will take an awful long time to develop." (Expert)

"We launched with a blaze of both national and local publicity… if you get people through your door and you can't service them and you don't have the right products, you can quickly kill the brand as quickly as you can make it. So as soon as we saw what was happening, we instantly took the foot off the gas in terms of advertising and PR and marketing. Now that we've started to get the new products built up, we will do another push." (Expert, alternative provider)

"When we launched a new product there wasn't really a considered debate around it or welcoming the fact that a business such as ours was trying to do something a bit more innovative and provide another option." (Expert, existing high cost lender)

"If you were a start up, you just wouldn't come and play in this space. The reputation and the cost of working and the difficulty of working with our customer base; there are less and less people doing it. The alternatives are reducing."
Expert, existing high cost lender

recommendations

We are making 16 recommendations to improve access to affordable credit in Wales and across the UK. No one organisation or individual can effect the necessary degree of transformation and collaboration that is essential; these recommendations are intended to form a coherent set of actions for change which respond to the challenges and opportunities identified in the research.

Some of these recommendations have the potential to be implemented swiftly; others will take longer reflecting the complexity of the issues faced. Our recommendations are grouped under five main areas of focus.

STRATEGIC USE OF POLICY AND (SELF-) REGULATION

Regulation is an essential part of the consumer credit market and, as FCA regulation of High Cost Short Term Credit demonstrated, can dramatically shift and change the landscape. Similarly, legislation and policy has the potential to positively impact on the market, including through self-regulation or policies developed by finance industry bodies.

> **Cardiff Council Coaching Pages**
> Since 2015, anyone accessing a payday lending website from Cardiff council computers, whether in a library or community centre, are met with a warning screen or "coaching page". The page signposts to advice agencies and alternatives such as Cardiff and Vale Credit Union.

1. Commitment to deliver on financial inclusion work in Wales
There must be a strong commitment from Welsh Government and all other stakeholders to deliver on the commitments made in the Financial Inclusion Strategy for Wales 2016[1]. The three core themes of access to affordable credit and financial services; access to financial information, including debt advice; and financial understanding and capability, strongly reflect the issues we seek to address.

2. A 'financial wellbeing in all policies' approach, at both national and local government levels
As is already the case for health, we strongly advocate for a 'financial wellbeing in all policies' approach, at national and local levels.

1. Financial Inclusion Strategy for Wales 2016, Welsh Government

Procurement and commissioning: Value Wales and the requirements relating to Economic, Social and Environmental Impact, and to Community Benefits offer opportunities to incorporate consideration of financial inclusion issues when procuring local services.

Use of assets: Physical assets offer a range of opportunities, from installing 'coaching pages' when public hardware or networks are used to search for high cost lenders to letting vacant high street premises to charities and social enterprises at no/low rents to enable them to compete more effectively with commercial lenders.

3. Regulation of promotion of repeat unsolicited loans
Unsolicited offers of credit by a lender, before an existing loan has been repaid, is a significant driver to repeat borrowing. This is particularly the case in the home credit market. We recommend that the FCA investigates the opportunities for regulation in this area.

In the interim, we also call upon lenders to consider self-regulation in this respect and for trade associations such as the CCA to update codes of conduct with best practice that promotes more responsible approaches to repeat lending.

4. Development of a process which enables people to 'self-ban' from specific types of credit or lenders
We recommend the establishment of transparent and consistent process across credit agencies which will enable individuals to register a wish to be refused access to particular types of credit. A marker could be placed on their credit record to ensure that they were unable to obtain these types of credit.

Building on the model of self-exclusion in the gambling sector, this could provide a useful tool for some customers who are struggling to manage their credit agreements. As with gambling, regulation could be used to ensure compliance and implementation. The use of such a self-ban should be viewed positively from a credit scoring perspective, as a commitment to improved financial management by the individual.

IMPROVING EDUCATION AND ADVICE SERVICES

It is all too evident that there is plentiful scope to reduce the number of people turning to high cost credit unnecessarily through improved preventative education and outreach, and earlier intervention at moments of known vulnerability. Our recommendations here do not focus on the detail of how to improve levels of financial capability. There is already much excellent work being done in

Wales to address this and we strongly support the recommendations made in The Financial Capability Strategy for Wales[2].

Crucially, we agree that there must be a greater emphasis on providing financial advice and access to affordable credit and appropriate savings products at key life stages by working in collaboration with partners across services. Focus areas include: pregnancy; young people leaving home; care leavers; students; new tenants; those facing unemployment; and bereavement.

DOSH, Wales

A programme providing provide peer-to-peer money management lessons in schools, colleges and universities in the Newport area. It was developed by apprentices at the Intellectual Property Office who won the Lloyds banking group's Money for Life Challenge 2015.

5. Support the creation of local peer-led financial education and advice.
High cost credit consumers are clear on the merits of peer-led education, advice and support. Peers are often felt to be in a better position to understand someone's situation, empathise, be non-judgemental, and to be credible. Peer educators also have the potential to act as a catalyst for changing social norms around borrowing in their communities.

We therefore recommend further piloting, roll-out and evaluation of schemes which employ those who have had personal experience of debt and high cost loans, with the skills and confidence to support other members of their community.

6. More cross-sector collaborative working to identify opportunities for earlier intervention.
The development and commissioning of new services must take a more holistic approach with a view to identifying opportunities for earlier intervention with financial information and advice at crucial life-stages. In particular this requires collaboration between health services, schools and colleges, employers, the third sector, and lenders offering affordable credit and/ or targeted savings schemes.

7. Pilot and evaluate locality-based financial brokering and capability services
Place-based approaches to service delivery and community development are not new. However, integrated and holistic place-based approaches to supporting financial inclusion are less common. Sheffield Money is one example of an attempt to provide residents with a service which helps improve their financial capability, access to advice, and access to affordable credit, while keeping as much money as possible in the local economy. Such

Leeds Money Buddies

Money Buddies are a team of volunteers who have been recruited by the Ebor Gardens Advice Centre to deliver a free, confidential, impartial and independent peer support service to the public. Money Buddies help individuals to follow the money and legal advice given by an adviser, although this is not a prerequisite to accessing buddy services. Money Buddies attend a training programme before seeing clients so the volunteers themselves also benefit from gaining skills, knowledge, experience and confidence which can assist them in seeking paid employment.

approaches have the potential to achieve significant impact by capitalising on local assets (physical and human), offering people the convenience they seek, and building on existing networks to generate awareness, credibility and trust. We recommend that such models are thoroughly evaluated with learnings transferred into the development of new models in Wales and across the UK.

IMPROVING OUTCOMES BY WORKING WITH HOUSING PROVIDERS

With the vast majority of high cost credit users living in rented accommodation, housing providers, including local authorities, housing associations and private landlords, provide a clear route to reaching and engaging consumers. The high priority that most people place on maintaining a good relationship with their landlord opens up a unique window of opportunity, particularly at the start of a tenancy which can often be a trigger to debt. There are also significant potential benefits to landlords in terms of reduced arrears as a result of improved financial resilience.

8. Development of pre-tenancy guidelines

Rental Exchange, UK

Big Issue Invest and Experian have partnered to tackle some of the financial and social exclusion challenges faced by rental tenants in the UK. Rental payment data is incorporated into a tenant's credit history in the same way as mortgage payment data, it unlocks a range of benefits. This is done at no cost to either the housing provider or tenant.

Pre-tenancy guidelines, for both social and private landlords, would serve as an important mechanism for reaching consumers at a key life transition point which often leads to (increased) use of high cost credit. Best practice would include the provision of information on a range of related topics including the cost of living in the property (e.g. Council Tax, average heating bills, etc.) and on money saving opportunities such as how to switch

2. The Financial Capability Strategy for Wales, 2015, Money Advice Service

energy provider. It would also contain information on where to get information and support on budgeting for the move into a new home, including signposting to appropriate advice services, and affordable credit options such as credit unions or social enterprise furniture retailers.

We recommend that Welsh Government, DCLG, local authorities, housing associations and their representative bodies collaborate to develop and implement a common set of guidelines for landlords. The recently established Rent Smart Wales would provide an excellent route to reaching and engaging private landlords.

9. Pre-tenancy service for social housing
A package of information and support to ensure that tenants are prepared for their move. This should include personal meetings, with time to allow for savings to be made – to cover: furniture provision, the costs of running the specific property, and a financial health check.

10. Improved home furnishing help packages and promotion of affordable options
We recommend that existing home furnishing packages provided by social landlords are reviewed to ensure that they are structured in such a way that enables tenants to gradually replace rented items with their own purchases. Currently many schemes require all rental furniture to be returned as a package making it both logistically difficult and more expensive to gradually purchase and replace items. In addition, there needs to be greater promotion of affordable/ social enterprise household goods/ furniture reuse stores.

ENABLING INNOVATION

The need for innovation is self-evident. Problems of financial exclusion are deeply entrenched and alongside the strengthening of existing approaches, we need new solutions and approaches to transform the consumer credit market, improve financial capability and to help and support those who need it. Many organisations are trying to do just that, and making a difference to lives across the UK. But their stories of innovation are ones of challenges, barriers, and often all too slow-progress. It is testament to the grit and determination of innovators that many new products and services see the light of day.

If we are to bring about the scale of change needed, those barriers need to be lowered and a culture of innovation and collaboration more wholeheartedly embraced.

11. Greater regulatory support for innovation
The investment needed and complex processes required to comply with regulation can become a barrier to entry and innovation, particularly for smaller charitable or social enterprise operations.

Fair For You

This social enterprise launched in late 2015, providing small loans to lower income households to purchase essential household items. It aims to compete with the major rent-to-own retailers. Customers can browse for products online and apply for a loan for the products they have added to their basket. Fair For You staff then call customers to check affordability and once approved, items are delivered within 72 hours. Finance is provided directly from Fair For You, in line with the credit union ceiling rate. Loans are typically offered with weekly repayments, with no set up or early repayment fees.

Fair For You was helped to get off the ground by funding and support from Esmée Fairbairn Foundation, Garfield Weston Foundation, The Tudor Trust, Barrow Cadbury and the Joseph Rowntree Foundation.

While the FCA Project Innovate and proposed regulatory sandbox are welcome, more needs to be done to proactively seek out innovative ideas and support them through the testing and development phases. Alongside this, greater support is needed from the Payment Systems Regulator to help new entrants to the market gain access.

12. Improved funding for innovation through greater use of social finance
Interest and activity in the innovation of new products and services by civil society organisations, housing associations, and credit unions is on the rise. However, these groups are typically small with limited financial resources to invest in costly processes of innovation, particularly when regulatory approval is required or there are high capital costs. At the same time, social funders have been, in the main, notably reluctant to support such activity. Anecdotal evidence suggests that it is often seen as 'toxic', and that the wider social benefits of reducing reliance on high cost credit are not well understood. We are therefore calling on the wider social investment community to address this issue in a number of ways:

• To take steps to better understand and build an evidence base of the social value that demonstrates the case for social investment in affordable finance;

• To extend Social Investment Tax Relief, to include investments in CDFIs and social enterprises and other institutions that are developing affordable credit solutions;

• Through the establishment of a dedicated Social Investment Fund which would both stimulate demand (e.g. through the funding of incubation programmes, grants for R&D/ proof of concept and market work, and/ or combinations of grants and equity-like investment to cover start-up costs), and meet demand for capitalisation.

13. Pro-active cross-sectoral support for experimentation and innovation
All stakeholders need to take an increasingly active role in facilitating and supporting innovation in the affordable credit market. This includes through funding, in-kind contributions of time and expertise, by providing access to consumers, and through partnerships which enable new concepts to be trialled and tested efficiently and cost-effectively.

In particular, there are three areas of innovation and experimentation where there is scope for significant growth:

Funding and commissioning of pilot behaviour change initiatives – building on those trialled in the UK, Europe and elsewhere, including everything from social marketing campaigns, prize-linked savings, incentive and education approaches, to simple text reminders when repayments are due. There must be a commensurate commitment to fund and support successful initiatives beyond the pilot stage to ensure they achieve their potential impact.

Programmes to support knowledge transfer -e.g. secondments from mainstream lenders or regulators to help social enterprise and other innovative start-ups

New product development – as discussed in detail in the next section.

THE MARKET PLACE

We believe that a thriving, diverse, innovative and competitive consumer credit market is needed to deliver better products and options for people needing to borrow. Many of those who currently use high cost credit are also keen to demonstrate their credit-worthiness and build their financial capability and confidence, opening up access to better rates and terms. Similarly, many people would like to save. Some consumers have in place strategies for saving small amounts, while others currently feel that it is outside their reach, despite being able to make regular repayments on expensive loans. While we welcome the recent announcement of the Government's "Help to Save" scheme, more needs to be done in terms of offering opportunities which respond better to the way in which high cost credit customers manage their finances.

Across Wales, the UK and beyond, there is already some important and creative work being done to improve current products and services, and develop new ones, including by existing short-term lenders. It is critical, if we are to see a strong affordable credit market, that this activity is greatly expanded and accelerated, and new products designed to reflect the needs and priorities of consumers. We set out here the 9 core principles and features on which we believe products and services should be built (see table 13).

TABLE 13
Core principles and features for affordable credit products

Affordable	The repayments agreed must be affordable and loans should not be made otherwise.
Offers control	Repayment schedules are set in agreement with borrowers and can be adapted if needed. Customers can place limits on their usage if desired.
Convenient	Customers should have access to a range of appropriate options regardless of internet access, mobility, and geographic location.
Quick	Products must offer fast decision-making and rapid access to money or products.
Respectful	Customers must have access to options which offer privacy, anonymity or the opportunity to develop personal relationships, as preferred.
Competitive in their offering	Credit products associated with consumer goods (e.g. Rent to Own) must provide a range comparable with the high street and avoid value judgements on 'essential' vs. 'luxury' goods.
Help develop financial capability and confidence	For example by integrating incentives or 'nudging' people to change behaviour. Referrals to advice and support are made as appropriate.
Simple but transparent	The terms and costs of borrowing must be clear – but the application process must be simple and not encourage people to 'tune out' the information
Ethical business	Lenders must be sustainable, set rates which reflect genuine risk without being exploitative, not encourage unnecessary borrowing, seek to innovate, and there must be fair competition. Both for-profit and not-for-profit businesses have a role to play.

Moneyline

Moneyline offers low value short-term loans to customers who may otherwise struggle to access credit. Its model focuses on offering personal service with advisors who are trained to help signpost people to advice and support when needed. Moneyline also encourages customers to save alongside their loan with their "round it up" savings plan.

14. Strengthening and growing credit unions

Credit unions in Wales offer products and services which closely align with most of the core principles identified (see Table 13). There are also successful examples of partnership working between credit unions and groups such as schools, community groups and employers. Yet overall the reach of credit unions in Wales remains relatively small and there is opportunity for the sector to meet more of the demand for affordable credit.

All too often there is confusion around issues such as the product offering, loan eligibility, and the accessibility of funds. The principles of 'quick' and 'convenient' are not fully met in the eyes of consumers. Along with some perceptions that credit unions are the 'poor man's bank', it is evident that the sector would be substantively strengthened if there was a common core offer and service standards.

The Credit Union Strategy for Wales 2016 sets out in de tail the nature of the challenges and a clear vision and objectives. The evidence from this research underpins the need for such a strategy and its implementation.

Cambrian Credit Union Payroll Deduction Scheme, Wales

The Cambrian Credit Union has signed up a wide range of public and private sector employers across Wales to enable save and borrow via payroll deduction.

15. New consumer credit and savings products

The need for innovation and diversification is evident. Existing affordable credit options, such as credit unions and Moneyline, cannot meet consumer demand alone. As with mainstream consumer credit, there is a need for a much wider range of products and services, from a range of lenders to increase choice and the availability of credit products which meet the needs of different customer groups. Building on the suggestions of consumers, experts and a review of global innovations in alternative credit products, potential examples include:

• Products which promote positive financial behaviour and financial capability, e.g. through opportunities to earn better rates and terms, savings-links, and ethical debt consolidation;

• Products which promote savings, e.g. product-linked savings schemes (e.g. school uniform), default offer with Foundation bank or PO accounts, micro-savings schemes, loan-to-savings products, payroll deductions;

• Products offering lower rates through risk management or ethical business models, e.g. social enterprise, employer or landlord underwritten products.

Pay Yourself Back, USA

A product developed by Innovations in Poverty Action as an add-on to any loan type. It leverages habits formed by making regular loan payments, to encourage consumers to make regular payments to themselves (save) after the loan is paid off.

Mogo, Canada

An online lender, Mogo offers a range of "socially responsible" features including free access to credit scores, "Level Up" enabling people to access better rates for on-time payment, and monthly snapshots. Account holders also receive regular hints and tips to help develop financial capability.

16. Understanding and segmenting of customers

There is a rapidly growing field of activity around 'big data', FinTech, and ever more sophisticated analytics which means that we are increasingly able to segment and profile different consumer groups. This includes everything from improved measurement of financial health to apps which help consumers develop their financial capability. While supporting this, we sound one note of caution. An increased understanding of customers inherently carries the risk of further widening the gap between the most 'sub-prime' and 'near prime' customers; this must not translate into even greater financial exclusion for those deemed to be the biggest risk.

Pariti, UK

A mobile app aiming to make finance easier to understand and breaking down some of its complexities. Pariti connects data from the user's various financial accounts to give a more simplified view of their overall position and calculates a maximum weekly spending target. It also provides a future forecast to give advance warning if people are likely to fall short, so that they can make the necessary adjustments and make a more informed, timely decisions. Pariti is also currently seeking FCA approval to build a new financial health score aimed at improving the affordability of credit, through driving down default costs.

Ben
47 years old

- part-time self-employed
- single, has 2 children who live with their mother
- private renting, lodges with a friend
- no health conditions

HIS CREDIT JOURNEY

Ben's first loan was with a home credit provider. He was 18 and had just passed his driving test. He borrowed £150 with the intention of buying a car but never bought it: "on the way to get a car, there was a pub". The money quickly disappeared on socialising. He repaid the loan in full after about one and a half to two years. About a year and a half later he took out another loan for £200 with a different home credit lender. He consciously took a break between loans in order to "recuperate" after the first. The agent had knocked at his door, he was short of cash and thought, "oh alright then". He spent this on food and clothes. After paying that loan off, he stayed free of credit for several years.

Things changed again in his late 20s and early 30s. By then he had a young family and was the sole earner. He was in regular employment and so when he approached his bank for a small overdraft they were happy to give him a credit card with a high limit. He also obtained other credit cards and as he repaid in full each month, the limits kept rising. This paid for "everything: fridge freezers, washing machines, the washer dryer… household things, clothes… buggies, prams". Things began to unravel when he split from the mother of his children.

Despite the originally amicable arrangement, his ex-partner stopped paying for her share of the bills and eventually he accumulated £20,000 of debt in the form of credit card and bank loans. He was struggling and stopped repaying. The nature of his job means that he has an unstable income and sometimes he doesn't get work at all. In 2001/2 he got a payday loan for £500 to see him through a period when he didn't have work. He ended up having to repay an "extortionate" amount, about £1,700. Creditors continued to chase and with interest, the debt reached around £49,000. He asked for advice but they told him that because he is unemployed the creditors can't do anything, "they will take you to court, you'll pay them back £1 a week".

He moved house and believes that as they have not been able to track him down in the last ten years, the debt is now written off. He has deliberately avoided joining the electoral roll to ensure he cannot be found. Since then he had avoided taking out any loans.

> ***"They were basically throwing the credit at you"***

However, about a year ago he took out a home credit loan for £150 because it was offered to him, not because he particularly needed it, but he "knew that the money would come in useful". They offered him another £400 half way through repaying his initial loan. With this he bought a car which he said was the "best £400 I've ever spent" because he uses it for work. He is paying this back at £30 a week, managing this with the odd jobs he gets. Ten months ago he also bought a TV on rent-to-own and two months later bought a laptop, increasing his weekly repayments from £10 to £17. He is continuing to repay this. Despite saying in June that he had no intention of taking out further loans, by August, he had taken out another doorstep loan. He needed the money to fix his car and cover the cost of petrol to pick his son up, who lives in England, so he could stay with him for a couple of weeks over the summer. He didn't request £400 but, because they offered him this amount, he accepted. He added this on top of the loan he already had with them, repaying an extra £4 per week. "An extra £4 doesn't really bother me".

At the moment, his home credit agent is the only one that will give him a loan so he has to make sure that he pays any outstanding loans back to him if he wants anymore.

MONEY MANAGEMENT SKILLS AND STRATEGIES

Ben's attitude to money has changed overtime. He talks about being "older and wiser" and so more likely to be able to say "no" when he is offered credit.

"Now, I'm at that age where I don't want all that money now. I'm quite happy just getting by with what I've got, you know? If I need money, I'll just go out to town for more work." However, Ben also recognises that he still finds it difficult to refuse credit when he is offered it. He can still "fritter money away on nothing". For example he was once planning on buying a HiFi from a rent-to-own store before his friend advised against them. He said this was "lucky" because he doesn't listen to that much music now. He feels that if it were still as easy to get credit now, as it was when he was younger, he would still be tempted because "everyone loves easy money".

Ben has developed a strategy for managing his money that now works for him. He currently manages his outgoings, such as his car insurance, electric, Sky subscription, by standing order with the bank so that he knows what is coming out and when. He will make sure he has enough money in his account for these payments but otherwise manages his spending money on a weekly basis and in cash. He said that he sometimes misses the odd Direct Debit payment which results in a bank charge. He can't have an overdraft because of his poor credit history. He "doesn't really go out drinking" but if he does, he knows how much he's got to spend. Ben tries to live within his means and if he can't afford something he doesn't get it. However, this hasn't always been the case in the past.

"Everyone loves easy money"

Ben also sees credit as playing a positive role in his life. He therefore prioritises repaying his home credit loan, after essentials such as bills and food, because they are the only people who will lend to him. He repays because he may need them again, for example if his car breaks down.

He is confident that he can manage his money and doesn't think there is anything that could help him manage his money better. He feels he has "got it down" and is "plodding along quite happily". However, he is not confident in working out how much will be repaid on a loan based on the interest rate.Ben jokes that he has two savings accounts, one with 1p in it and the other with 9p. He "never has any money" to save once he has paid all his bills. "It's just swings and roundabouts … Money in one hand, goes out with the other". He finds saving difficult because whenever he has the money he will take it out.

KEY INFLUENCES IN PRODUCT AND LENDER CHOICE

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Being offered a loan unsolicited - finds it hard to say no

Perceived credit options and who will lend to him (in turn based on perceptions of credit score and lender's level of credit checks)

Recommendations from friends

HOUSEHOLD FINANCES

As a self-employed painter and decorator with an unstable income he has, on occasions, received benefits to see him through periods where he is out of work. He has only been living in Wales for two and a half years so hasn't had the time to establish a strong local customer base. Work tends to diminish over Christmas and the summer when people are saving their money. When he was working in England this would mean he had fewer clients during these periods but in Wales it means he has no work at all. He struggled in the run up to Christmas, so he was unable to repay his home credit loan. "I've been tightening the belt so tight, my front's already touching my back".

LOOKING TO THE FUTURE

Hopes and aspirations - Going forward, Ben expects his financial situation to remain fairly similar. He doesn't expect to be able to save. He has been considering working for someone to seek a more stable income, albeit at a lower hourly rate, although he prefers being self-employed - "anything's better than nothing".

Expectations re. credit use - Ben is still borrowing, but plans to manage the loans better by not having more than one at the same time.

"I would like to say, yeah, I'll never borrow again, but I can probably guarantee you that I will"

He is aware that they can end up being expensive but it is "easy money" he's "not missing £10 a week". Ben would prefer to be in a situation where he didn't have to have a loan but he wouldn't borrow from a credit union because he thinks you have to save before you borrow and he would never have enough money to save.

Requirements for new products/ suggestions for what should change - Ben would like a savings product that prevents you from withdrawing money without giving 28 days' notice, similar to one which used to be offered by the Post Office. He is "very bad at saving money" so this would ensure that he really needed whatever he was intending on buying, rather than it being "something that I don't really need I just feel I need to have". This would be a good way for him to save for Christmas.

AGE

18

Home Credit

£150

"I got out the loan to buy a car. It's one of those things. 'Oh I passed my test, Woo, get a car'. I didn't get it in the end. I spent it on booze."

"I waited for a bit before taking out another one but then I was short of cash and I needed to buy food and clothes so I took out another £200."

30

Credit Card

£20.000

"That went on everything. Fridge freezers, washing machines, the washer drier. Everything just went on household things, clothes, my daughter was first born, so-, God, kids are expensive, aren't they?"

"Then I got a £4000 bank loan and put £100 in the bank for bills. That was at a time when banks were throwing credit at you."

40

Payday Loan

"I was unemployed for a while and needed something just to get me through."

"The amount I needed to repay was extortionate-four or five times what I borrowed."

"I never paid them off in full because I moved house and they couldn't find me. When I moved all my debts together was £49,000."

"I was sick from worry because I couldn't pay it. I was getting red letters and the banks were still offering me loans.I moved house and I think it's written off now."

"I was paying it back quite a while but then I got a letter saying they'd lost all my information so I decided not to pay."

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Home Credit

£150

"I half paid that off, and they said, 'Oh, I'll give you another loan. I'll give you £400."

£400

"Last time I did buy a car… best £400 I ever spent."

£400

"I think I'm about one week behind on repayments at the moment so that's not bad."

Rent-to-own

"I pay £17 a week for my TV and my laptop."

Sophie
34 years old

works as a self-employed childminder

single, has two children aged 14 and 4

lives in social housing

experiences depression

HER CREDIT JOURNEY

Aged eighteen, Sophie took out her first credit cards, "thinking I was clever, young and clever… you've got that bit of plastic in your purse at eighteen, that's it". She thinks she ended up spending about £400 to £500, primarily on clothes. Over fifteen years later, she still has only paid off about half of the debt, because there was a long period when she wasn't repaying them, although she continued to receive letters from them requesting repayment. The interest "just goes on and on".

They eventually "sent a letter saying they wanted it all in one go, or they were sending the bailiffs". This spurred her to contact them and they were "really good… because I'd got in touch with them". Together they arranged an affordable repayment plan and Sophie has recently restarted repaying them £10 per month.

A few years after taking out credit cards, Sophie ran up a "massive bill" for about £400 to £500 on her mobile phone and "didn't pay it". They cut her phone off and she hasn't heard from them since for repayment. She now has to have her phone in her Mum's name.

The debt Sophie got into with credit cards and phone resulted in her having a poor credit rating. Then, when Sophie's son was young, about fourteen years ago, she needed to borrow money "just to get by, day-by-day". As a result of her credit history, she thought that a doorstep loan "was just one of the only options … it was never a good option because of the amount you have to pay back, but there was just no other way of doing it". She borrowed £100 and had to repay £140. She was on her own and not working and had just moved into the home that she is currently in. She was waiting for work to come up that would be suitable for her to fit in with the school holidays. Since, "it's just been constant, really, ever since. Because once you've paid back another one, there's something else comes up, so you need another one and-, I'm still getting it now." The most recent doorstep loan she had was for £200 because her tumble dryer broke. She wasn't due to be paid for another couple of weeks. She has to repay £340; "it's a lot, I know, but when you've got two kids and no tumble dryer, you haven't really got a chance."

> ***"I want my kids to know that they can have the things they want."***

She was planning on getting a loan to redecorate, but the tumble dryer broke first. "They're on your doorstep, sort of on the same sort of day, really. That's the only good thing". Sophie has also bought items on rent-to-own. Her vacuum cleaner broke a few weeks after the tumble dryer so she bought a new one from a rent-to-own store. "That was really good, though, because I'd gone in, and if you recommend somebody… I only ended up paying about £50 for a Hoover, because you get money back for introducing people… which was cheaper than goingto a shop".

However, she said it was a "one-off" because the prices are "absolutely ridiculous… I'd looked at a TV, because this had started going, and they wanted, like, nearly four grand, I thought, I'd rather go without a telly". The television cost about £900 but the interest meant it would have ended up costing around £4,000. She said she would "wait and get another loan when I can and do it that way, because it's still a lot cheaper".

Sophie has tried applying for payday loans, when she was unable to get another loan from her home credit agent, but has been turned down for them because she has been out of work. She was refused credit on a catalogue earlier in the year but has since managed to get an account and is currently repaying £10 per week.

MONEY MANAGEMENT SKILLS AND STRATEGIES

When Sophie got her first doorstep loan, she "didn't really care" about how much she would have to pay back. "I thought, 'Right, they're asking £5 a week back, that's fine, I can afford that', and that was it, I didn't think of it, you know, how much they charge."

While the lender told her about how much it would cost, asked her to read through and sign some documentation, "I didn't care, they were only asking for £5 a week, so that was fine".

Certain crunch points result in Sophie being more likely to turn to credit. In the past these have included the breakdown of household appliances and school uniform. "It just sort of zoomed up in price. You know, you're talking over £100 just for his PE kit". Sophie makes her doorstep loan repayments over the phone once a week, with her card details. She finds it easier, and more private, to text her agent the day she is paid "rather than waiting for him to come at the end of the week and I've got no money". Sophie will never miss a repayment; she wants to maintain a good relationship with her home credit agent because "you don't know when you're going to need them again". She will "usually", when getting a new loan, still be repaying a previous one.

She describes herself as being "good" if and when she takes a new loan after having finished repaying an old one, so only having one home credit loan at a time, instead of multiple. Sophie is also expectant that, when it comes up to events such as Christmas, and her two children's birthdays falling at the beginning of the new school year, she will get out another doorstep loan.

"It's my own fault because I spend too easily, money burns a hole in my pocket"

She tries to stick to borrowing "around £200 maximum". The most she has ever borrowed was £1,000. However she would "never, ever, do that again, ever" because "I had no money left, just have to pay him [agent] then, and the normal bills, there wasn't a penny left." When her payday loan application was declined, it made her realise "well, I can do it" and that she "got by without it in the end".

Both of Sophie's children have Credit Union savings accounts. "Whenever I'm passing, you know, I just put a couple of pounds in each, but it's one that they can't touch until they're older".

She is not sure why she never opened one for herself, although at the time she opened her children accounts "it was literally just a pay-in, take-out account" whereas now "you can have your benefits and things paid in to it".

Her money is held in a Post Office account. "You stick to what you know".

Sophie pays for her gas and electric by pre-payment meter, "If we don't top up, we haven't got gas or electric". Her Mum also helps her financially, "if I run out of money towards the end of the week just before payday, she'll be there to help me". Her Mum has also said that she'll buy Sophie the wallpaper she was originally going to buy with a home credit loan, as a birthday present.

Her Mum also has Sophie's phone in her name and will buy items from catalogues on her behalf because of Sophie's own poor credit. "I couldn't live without my Mum" but feels she can't keep asking her parents for money when "they haven't got it themselves".

"If I didn't waste so much money all the time then I wouldn't have to borrow all the time"

Sophie hasn't sought advice for managing her money because she "never thought of talking to anybody" and because "part of it is my own fault because I just spend too easily; money burns a hole in my pocket" She thinks she is "too proud" to admit that she doesn't know what she's doing with her money, "I'm wasting it all the time".

KEY INFLUENCES IN PRODUCT AND LENDER CHOICE

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Responding to advertising: e.g. letters/flyers in the post or passing a storefront and entering to enquire.

Recommendations from friends and neighbours

Perception that she has limited options: "I've got bad credit, it was just one of the only options really"

Speed of accessing the money

Privacy. "Nobody knows your business if you do it over the phone".

Habit/brand loyalty – "because I've always used, you know, things like [home credit], I've never thought of doing any different."

Ease of obtaining repeat loans "you just phone up and say, 'I need some more, and they say, 'Right, you can have a maximum of-'"

HOUSEHOLD FINANCES

Sophie receives Housing Benefit to pay for herrent because of her low income. She also receives Child Benefit and Child Tax Credit on a weekly basis.

Sophie currently receives income support because she suffers from mental health problems. "The money comes in and it goes out again. It's just every-

AGE

18

Credit Card

£400-£500

"It wasn't horrendous" [the amount borrowed]

"I was thinking I was young and clever"

20

Home Credit

"It was my only option because of my poor credit rating from the credit card and my mobile phone."

22

"I got £100 in cash the first time. My first child was born and it was just to get by."

Credit Union

CREDIT UNION

"I opened an account for my children, when they were small"

"I hadn't paid it back but they were sending through letters"

"The most I've borrowed was £1000 for home improvements. That was ridiculous, you pay back £35 a week and end up paying £1,900. I won't do it again. I will now only take out £200 at a time max."

Payday Loan - Declined

"Without a job, they just laugh at you"

"I can't remember what it was for, it was something else that had come up"

34

Rent-to-own

Catalogue - Declined

"I tried to use catalogues but was turned down because of poor credit rating"

"My hoover broke. It was only £50"

"It's just a way of life really, now. I've been paying every week for probably the whole 14 years...I'm paying that £7 for that long that you don't even notice it any more"

"About 3 years ago I took out money when my eldest started secondary school because the uniform was more expensive"

"My most recent loan was only for £200. I took it because my tumble dryer broke and I wasn't due to be paid for another few weeks"

"I've only recently started paying it back. I pay back £10 a month" day things, once I've been, you know, shopping, gas, electric, school money, bus fare money for school, dinner money, that's it, it's gone for another week". It costs £40 a week to send her children to school, with dinner money and bus fares, which have recently increased from £4 a week to £11.50. With her two children, "it's hard, because there's always something that they need".

LOOKING TO THE FUTURE

Hopes and aspirations - Sophie is saving with the Credit Union for her children because she doesn't "want them to have to go down the same road".

She was hoping, at the time of the interview, to grow her fledgling childminding business. With her youngest child due to start school soon, she wanted to be able to look after a few more children so that she wouldn't have to rely on home credit in the future. However, since then, a previous mental health problem has recurred and she has had to give up childminding at the current time.

Expectations re. credit use - Sophie imagines that she will go on borrowing from her home credit agent. She hopes that if she could have more childminding work that she wouldn't have to take out loans. She hates borrowing, "constantly knowing you owe somebody money every single week". She wished she "hadn't started" but says "it's just one of those things … It's just a way of life really, now. I've been paying every week for probably the whole fourteen years … I'm paying that £7 for that long that you don't even notice it going any more".

Requirements for new products/ suggestions for what should change - Sophie believes that opportunities to save whilst borrowing would be a good idea. "That's probably better because you haven't got a choice then, have you? … If you're paying these loans anyway, you get used to paying it, and then at the end of it you've got money there that's yours anyway".

She thinks "it's just down to, you know, the individual", how you manage your money so doesn't really see that anything else could help her. "If I didn't waste so much money all the time then I wouldn't have to borrow all the time".

Anna

45 years old

does not work

bereaved - three children aged 23, 16 and 7

housing provided by the local council

has diabetes and mental health problems

funeral expenses. At one point she turned to a local community group who sent her to a Foodbank for help.

However, they did not signpost her to where she could get support with her finances.

Eventually, in desperation, she borrowed from a payday lender online, after having seen a TV advert. She thought, its "easy, it's in your bank within ten, fifteen minutes". She borrowed £100 in order to buy food. "It was good, do you know what I mean? Straight up Asda, filled the freezers and everything."

However she got into a "bit of a rut" with it and was "constantly borrowing to stay alive". She had to repay £130, "that meant now I had to spend all my pay to pay [Payday Lender A] back, plus an extra £30". The only thing she knew to do to repay this was to take out another payday loan.

"Loans are too easy, I've done them all. They need to make it harder"

After about six to seven months of this cycle of borrowing from a payday lender in order to repay them, her daughter intervened, by blocking her account. Anna's sister and local friends helped her live for a week, where they "just struggled", with the bare minimum. Her sister told her: "bag of potatoes, beans, eggs, you've got a meal for a week".

"That one week was the hardest week of my life, not having anything…it was worth it in the end, because then I had my money."

Anna joined her local credit union three years ago. She "wouldn't be without that because that sorts the children's Christmas out". She is very happy that she is with them; without them she wouldn't have anything for the kids for Christmas. She likes that the interest is low and that when she joined they explained everything clearly to her. Two weeks before Christmas she then applies for a £1,000 loan to "sort the kids out". "I would never leave the credit union. They're my life, they are."

About one year ago, when her old television broke, she bought a new one through rent-to-own. She is continuing to pay for this, it costs £1 to watch four hours of television and she likes the small, manageable repayments. When they haven't got £1 to put in their new television they watch their old portable television in bed. She continues to receive a catalogue through her door every two to three weeks. She recently saw an iPad in there that she was hoping to buy for her youngest son but it would cost an extra £15 per week, which she couldn't afford.

HER CREDIT JOURNEY

Aged 18, Anna first borrowed £100 of vouchersfrom a doorstep lender. She had moved into her own flat and was on her own with one child and needed the money to help her furnish the flat.

Since then she has almost continuously borrowed from multiple doorstep lenders : "I've had them all" because "when you come down to your last bit of your money they say, 'Do you want to renew it?' It's so easily done". However, last Christmas was the last time she borrowed from a doorstep lender.

About three years ago, her partner bought a three-piece suite from a rent-to-own store. However, they couldn't afford to keep up with the £20 a week repayments and after a year the store took the sofa back.

Then, two years ago, her boyfriend died unexpectedly. He used to manage her money and claim benefits on her behalf.

Unsurprisingly, she was extremely emotionally vulnerable at this time and describes herself as being "just a bit of a nervous wreck". There were six to seven weeks after he died when she was without the money that he had been claiming and had no income. On top of this, she was faced with the

MONEY MANAGEMENT SKILLS AND STRATEGIES

Anna has been in debt for most of her lifewhich has meant that she and her children have had to forego many luxuries.

Anna has poor financial capability. She says, in terms of interest rates, "I haven't got a clue". She found that borrowing with a payday loan was easy because it was clear how much you would have to pay back and the form was easy to fill in, but she did not look at the information beyond that.

She also struggles to manage her money. "I'm not good at managing my money". She finds it hard to with three children and especially since her partner passed away, because he used to manage all her benefit payments for her. "It is just getting into the routine of doing it all myself but I do find it hard".

She manages her money on a weekly basis because she's "got to … I've got £100 a week, that's all. And that's to sort the kids out, run a house and do shopping". She also relies on the help of others. Her daughter blocked her payday loan account for her. "It comes to something when a fourteen-year-old's got to block something".

Anna also believes that she would really struggle if it wasn't for the help of her friend, who doesn't borrow money herself, but helps Anna to manage hers. She pays her friend £6 a week for her to pay her TV license. She would not fail to pay her friend, but she knows she might fail to pay for the licence direct.

"I'm not good at managing my money"

Her gas bill is automatically taken out of her income support. Anna finds this helpful because then she knows it's already been taken out. She would like this to happen with most of her other bills e.g. her water and electric which she currently pays for on her card. "I'm not confident at managing my bills. If I don't want to pay them, I won't pay them". "I like to have things Direct Debit, so it's going out of my money, so I know what's saved in the bank is mine".

Ideally, she would like someone else to take over the management of her money. "What I'd like them to do is to have my bank card and then sort out what I've got to sort out on the money I have … if somebody had my money and they say, 'You've got to give me this now, or that.' I'll do it … I just need a bit of help with sorting things out"

"Now I'd rather try and struggle but if someone knocks on the door at Christmas …"

Anna worries about the introduction of Universal Credit. Instead of her rent being paid directly to the local authority, it is soon to be paid into her bank account where it will then be her responsibility to pay. "Do you think if I got £300 in my bank and my kids need shoes, what do you think I'm going to do? Do you realise you're going to make a lot of people homeless?" Her strategy will be to have the rent paid into her daughter's bank account, now she is 16, and then she will pay it on her behalf.

KEY INFLUENCES IN PRODUCT AND LENDER CHOICE

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Being offered a loan unsolicited at the door – finds it hard to say no

Affordable, weekly repayments – fits in with how she manages her money

Clarity on total cost of repayment. "It's so easy to push a bar up over what you want to pay"

Advertising in various forms: via catalogues or flyers she receives through her door, local adverts, or television adverts

Recommendation from friends

Ease of application process. "I haven't got the patience to sit down and do this, do that, do that. [I picked] the easier one."

HOUSEHOLD FINANCES

Anna is currently living on benefit payments: Child Benefit, Child Tax Credit, and Income Support. Her eldest daughter, 21, lives with her but doesn't work and her other daughter has recently started college.

After being in debt with payday loans and getting to a point where she had to use a foodbank, she says she is now "comfortable … I know what I can spend, what I can't spend". Anna says that many people in her community borrow but she would say she is "the worst". She finds it difficult to say no. "If there was, somebody knocked the door now … do I want £100 vouchers, I would take it, I know I would … being on my own with three kids, low income, I would do it … every little helps". This is especially likely in the run up to Christmas when lenders are more likely to call: "at Christmas, they're always around here".

AGE

18

Home Credit

£100

"They just knocked on the door. It was so easy"

"I moved into my own flat and I was on my own with the kid … we needed cutlery and to furnish it."

"I had loans ever since … It was [Lender, A, B, C]. I've had them all"

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Rent-to-own

"My boyfriend moved in and we got a 3 piece suite"

"We paid £20/ month for about a year but then missed some payments so they took it away"

Payday Loan

"My boyfriend died unexpectedly. All the benefits were in his name. I had no money coming in for 6 or 7 weeks"

"I saw it on telly. I tried a few a got rejected. Lender X was the easiest – the form and it was in my bank in 5 minutes"

"I was in a bit of a rut … I was constantly borrowing to stay alive. A vicious cycle"

"Eventually my daughter locked my accounts. Friends and family helped. And we went to the Foodbank."

44

Rent-to-own

"You pay for years for it, but at the time I didn't have a telly, and that's how I've got to live."

"Only £1 and sometimes I can't afford that."

Credit Union

"I haven't had one since last Christmas but … "

"Since last Christmas they take £25 a week from my account. I borrow £1,000 for Christmas."

Her children have never had a holiday. Anna doesn't have enough money to do anything with them over the six week summer holiday.

She doesn't like that when her children go back to school and are asked what they did, they have to say "nothing, I've been sat in". But "on £100 a week you can't do a lot…it's just one of those things"

LOOKING TO THE FUTURE

Hopes and aspirations - Anna's hopes are for her children to have a good future. She is proud of her daughter who is heading off to college and is responsible with money. However, she believes that in five years' time she will be worse off, financially, then she is now. "I will be constantly borrowing from different people to pay off other creditors".

Expectations re. credit use - If there were to be any unexpected expenses, such as her washing machine broke, she would have to pay for a new one on credit by putting an extra pound in the TV she has that is "pay as you go". She wouldn't have, on £100 a week, enough money to buy a new one. She would do this because she would be able to pay in small instalments, "I put £1 in the meter and I pay for it that way".

She wouldn't borrow from a payday lender again and wouldn't recommend others to them. She hopes to avoid her financial situation coming to a point where she has to borrow from payday lender but says that if it comes to that, "I'm going to have to", although it would be an extreme last resort and her daughter would try to stop her.

She knows that she will continue using the credit union or else her children "won't have Christmas".

Requirements for new products / suggestions for what should change - Anna has never sought financial advice from a formal service because she doesn't know where to go, "there's no one around here". However, she would appreciate help to "get back on my feet then there's no need to borrow". Although friends have helped her with her money, they haven't recommended anywhere to go for support or advice.

She would have appreciated, before she took out her payday loan, for someone to have explained to her what would happen, what the consequences would be. Perhaps it would have helped if, at the time she looked for a payday loan online, an advert for an advice service had popped up instead and asking questions such as: "would you have enough left to see you through after paying this back?". She also said that "if the forms were a lot harder and a lot longer, people wouldn't have the patience to fill that in".

Joel

45 years old

works full-time as an in-house graphic designer

single, no children

rents from a private landlord, lives alone

no health conditions

Joel liked the experience of being able to speak with the bank manager, where they applied "some kind of basic interest repayment for the first year, while I was at college, and then the bulk of the repayments came when I got my job". However, since then he has had some bad experiences with mainstream lenders.

Joel's first job was in the Midlands. He wanted to buy a flat which would cost £36,000. His salary at the time was £9,000 and increasing to £12,000 in three months' time. He applied to a Building Society for a mortgage. They told him that they couldn't lend to him until his wages increased to £12,000. "I should have just walked away then" but he was offered a "bridging loan" for £6,000 with a company one of the members of staff recommended to him, three months before taking out a mortgage for £30,000. "I went back in three months, time to get it all put together in one mortgage and pay off the loan, and she'd quit" to join the loan company she recommended to him. The building society told him they'd never heard of this before, it "wasn't legit"; they said "we can't help you … you're saddled with this". "Eventually I had to hand the keys to the flat back, because I couldn't afford the bridging loan repayments and the mortgage".

"I thought about borrowing off friends, but I didn't want to do that. I thought of going to the bank but I think over the years [...] it's been a lot harder. Even if you've been a good customer, they just kind of say no."

HIS CREDIT JOURNEY

Joel's credit journey began with taking out loans from a high street bank. He took out his first loan when he was in college, over twenty years ago, when he was 21 years old. The bank lent him £300, interest free, in order to buy a computer. Joel's father had a personal and business account with that bank, and when Joel was 18 his father opened Joel's first personal account at the same branch. Two years later, he went back to them to take out a student loan so he could study a post-graduate course. "I had a scholarship to cover most of the fees, tuition fees and accommodation, but I took out a loan of £8,000 for London, to live, so I didn't have to work." Joel didn't have any issues in repaying either of these loans.

"It was [Payday Lender A] I wanted, mainly because I just thought it's the most well known"

Up until 2008, when the recession hit, Joel had "about two credit cards and I had a loan here and there". For example, he took out a bank loan for £6,000 to buy his first car.

Nonetheless, by 2009-2010 he and his then partner "didn't have any store cards or credit cards" and had paid off the mortgage on another house they had purchased together.

However, he says "things always catch up with you". Joel took out a payday loan earlier this year because his car needed repairs worth £850-£1,000. "It just came at the end of the month, a bad time, so I didn't have any handy money for about six weeks". The experience was "okay" and although he knows the interest can be quite high", he feels it wasn't too bad because he only had it for three weeks, until he got paid. "It [the interest] wasn't much extra, because it was quite short term". He had no problem paying it off once he was paid the following month.

Before taking out the payday loan he considered borrowing from friends but "didn't want to do that". He also thought of going to the bank but feels that it has become harder to get a loan from them in recent years.

Currently Joel has a loan for £7,000 for a car, he bought a new one because he "thought the monthly repayments would be less than, you know, the annual repair bill on the old car". He went to his bank for this, as opposed to a payday lender, because it was a larger loan needed over a longer period of time. "I needed that loan for three years; you go to the bank and you get the big loan".

MONEY MANAGEMENT SKILLS AND STRATEGIES

Joel is "not the greatest" at keeping track of his expenditure but does try to. "It doesn't matter if I write my expenses, if I add them on paper or do it on a calculator, I've still got to do it three times and I always get three different totals." He has a money management app on his phone "which I try and make sure I keep on top of".

Joel tends to try and pay for the majority of his bills by Direct Debit, on the first of the month, after he gets paid. "So, hopefully, everything has gone out and then, for the rest of the month, I at least know what I have left is just for me to spend, so if it runs out then it's not like I can't pay gas or anything. So that's the plan."

Joel's general aim, although "it doesn't often work out", is try to make sure he has "at least £300 in savings". He does this "to make sure for small emergencies". Although for a big emergency, "like with the car repair, then you're in trouble".

"I always try to make sure that I have at least £300 in savings, which I don't always do."

He has two savings accounts, one of them is the "total emergency pot and the other one is for Christmas and things I might need." He puts his money away at the beginning of the month, as soon as he gets paid. Joel usually sets himself a weekly spending figure and if he breaks it, "if I go £30 over, then I have to take £30 off another week".

He started doing this in 2008-2009, when the recession hit, "up until then, it was a lot more hit and miss … I always had a credit card or a loan or a store card or something". When he was living in London, "there were some bad months and some very good months, but I seemed to have my head in the sand a bit more … I used to kind of just spend and sometimes find myself short at the end of the month." However, it was after his most recent flat purchase, after his ex-partner gave him a "few tips and made me pay off all my cards" that resulted in him being generally clear of debt. "I think, before 2008, if I wanted something, say if my telly had gone and I needed a new HD and it cost £800, I'd have probably gone and got a loan for it, to have it instantly. Now I tend to save up for things more. If my TV broke, I'd probably get a small, cheap one in to start and save up then, you know, a few hundred quid a month until I got the HD."

Joel likes payday loans which mean he can borrow on a more short-term basis than with banks. He would limit the amount borrow to, "sort of, a third of your monthly wage … it's got to be something you know you can pay off in that two or three weeks."

KEY INFLUENCES IN PRODUCT AND LENDER CHOICE

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Speed of loan decision - "You kind of submit it and its back, so you're not waiting for two days … I think the banks can be quite slow."

Perceived likelihood of acceptance, particularly by mainstream lenders

Flexibility of loan – ability to choose loan value and term to suit needs - "Sometimes, I know with banks, you might only want £3,500, but you have to borrow £5,000 or £4,000 … you say how much you want … it's your choice."

Ease of application process

Transparency of total cost

Trusted brand

"There's a sliding scale that, as you tell them how long you want the loan for, it kind of tells you how much it'll be, how much you'll pay back, so you can see straight away … whereas you would take out a loan with a bank and they would say, 'It's over three years and you're paying back 8%'. It's hard to work out."

HOUSEHOLD FINANCES

Joel works full-time in a publishing house bookstore in Cardiff city centre. He has a regular income and generally has money to put towards savings. Joel makes sure he has enough money for each week, so that by the last week of the month, before he is next paid, he has "always got £100-£150 there". He generally tries to keep £200-£400 worth of savings, "just in case I get a huge bill".

LOOKING TO THE FUTURE

Hopes and aspirations - Joel hopes to be free of worry about money. "In one sense I've always hoped for the day where money wouldn't be an issue, you just spend what you need, pay that and not think about

AGE

Bank and Building Society Loan

18

"My Dad banked there … so he opened an account for me"

"NatWest Bank lent me the £300 for the computer, interest free"

21

"I took out a loan of £8,000 for London, to live, so I didn't have to work"

"I took out a mortgage of £30,000 and I took out this bridging loan with a company she recommended for £6,000"

"It was just the usual, you know, car loan for my first car. I had a Ford KA, that was about £6,000 at the time"

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Credit Card

"Up until about 2008, I always had a credit card or a loan or a store card or something."

"So for the next three years-, eventually I had to hand the keys to the flat back, because I couldn't afford the bridging loan repayments and the mortgage"

"Before 2008, if I wanted something, say if my telly had gone and I needed a new HD and it cost £800, I'd have probably gone and got a loan for it"

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"By 2009-2010, I didn't have any store cards or credit cards, we'd paid them all off"

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Payday Loan

"Earlier this year the car needed a few repairs and it was near £1,000, or was it about £850, so I borrowed that off a payday loan company"

"It just came at the end of the month, a bad time, so I didn't have any handy money for about six weeks"

"It was okay. I know the interest can be quite high if you take out longer term, but I think I only had it for three weeks in the end"

Bank and Building Society Loan

Credit Card

"I needed £7,000 to buy my new car. You wouldn't go to Wonga for £7,000 …I needed that loan for three years, you go to the bank and you get the big loan"

"I just have a credit card for emergencies, again, just paying for big things."

it, because you know there's always the amount there … you worry once a month when the bills have got to be paid, and heaven forbid if you lose your job most of us worry about being in debt or the possibility of debt."

Expectations re. credit use - Joel sees the value of using payday loans for emergencies, when he may need money quickly. For example, "if I went home tonight and my pipe has burst and my flat's flooded, and for some reason, you know, the insurance can't pay out for a while, or you might need it cleaned up, you might need to pay for someone, you might need £200 quickly." He therefore does think he would have a payday loan again, for any situations such as this but doesn't think he would take as much out next time to make sure he can comfortably afford the repayments.

He currently only has a car loan but envisages that he may have another in the summer for a holiday. For that he would either go to the bank, "unless it was a little weekend away somewhere" in which case he would get another payday loan.

Requirements for new products/ suggestions for what should change - Joel would like more opportunities for interaction with people in bank branches and a return of bank managers. "I phone up [the bank] all the time, it's very helpful, but people still need face-to-face".

He also feels the government should be more involved and take more responsibility for helping «people in real financial difficulty», perhaps through interest-free loans.