



Press Release

Stephen Kinnock MP to launch new research into the impact of high interest rate loans on low income families

10.30 am
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Committee Room 9
House of Commons

Credit where credit's due?, a study by The Young Foundation – one of the most detailed of its kind ever conducted – examines why families on low incomes take out expensive loans, the impact of indebtedness, and suggests ways out of the problem.

During all the recent publicity around payday loans, two other common forms of high cost money lending escaped scrutiny.

One deceptively simple source of quick loans is through 'home credit', or 'doorstep loans'. A representative of the finance company will come to the door and arrange a loan, face to face. The lender often comes with a recommendation or referral from a friend or family member.

For people who would struggle to find as little as £200 without having to borrow, the visit is a welcome answer to a sudden expense, such clothes for a new baby, or get a broken down washing machine repaired.

Everything about the service is attractive, except the cost. To give a real life example, a home loan of £200, repayable over 32 weeks can cost £320 – an interest rate equivalent to 399.7% APR.

Another superficially attractive option is 'rent-to-own' or 'hire purchase', under which, instead of paying for goods on the day they are purchased, the customer pays a weekly amount for a fixed term. Because the weekly payment is small, the customer may not notice how much a high interest – an APR of 69.9 %, to take a real example - has pushed up the price. One woman who was tempted by an offer to pay a £900 television via rent-to-own discovered that she was actually going to be charged around £4,000.

Interestingly, the new research showed that payday loans – a form of short term credit, typically for small sums – were not perceived well because of the pre-cap market, reinforced by media publicity and past experience.

In the course of the research, The Young Foundation conducted a representative survey of 1,000 people, surveyed 134 customers of high cost credit and/or credit unions, carried out in-depth interviews with 24 high cost credit customers, organised nine focus groups discussion with 77 high cost credit and affordable credit customers, and interviewed 26 expert stakeholders by telephone.

Their 76 page report, *Credit where credit's due?* includes detailed stories of four real life examples of people who have struggled to meet repayments.

Victoria Boelman, Lead Researcher on the report, said: "High cost credit customers come from all walks of life but they are mainly young families. They are equally likely to be employed as non-customers but are generally on low incomes.

"In recent years the attention has focused on payday loans but home credit and rent-to-own have largely escaped scrutiny despite being more prevalent and often more expensive.

"Sixty five per cent of high cost credit users do not compare offers between lenders. The majority live in communities where this type of borrowing is 'normal'. There are alternatives, such as borrowing from a credit union or loans from friends and family. Only a third of those researched considered these alternative."

Stephen Kinnock, MP for Aberavon, said: "This is a vitally important report, drawing attention to a serious and growing challenge. In recent years there has been a welcome focus on pay-day lenders, but, as this report shows, the proliferation of "home credit" and "rent-to-own" should be just as troubling.

"Those making use of such credit come from all walks of life, but the costs of credit tend to fall disproportionately on those on low incomes. With the increasing normalisation of such sources of credit and low levels of knowledge about alternative sources, action is clearly required, and fast.

"These forms of credit have, thus far, largely escaped attention, but this report turns a spotlight on the issue and must be the beginning of a movement for change.

"In Wales, where six percent of the population make use of high cost-credit, the Assembly Government have developed strategies for financial inclusion and capability. It is vital that these strategies are implemented, not just in Wales but across the United Kingdom, along with the other recommendations of the report.

"The Port Talbot Credit Union, in my constituency, is an excellent example of fair and ethical lending. We must ensure that awareness is raised of the services that the

CU offers, so that all those who are potentially vulnerable to high-cost credit are able to make better choices.”

Notes to Editors:

- A full copy of the ‘**Credit where credit’s due?**’ report is available at The Young Foundation website www.youngfoundation.org
- The Young Foundation is named in honour of Michael Young, author of the manifesto on which the Labour Party fought the 1945 election. It was founded in 2005 through a merger of the Institute for Community Studies, set up by Michael Young in 1954, and the Mutual Aid Centre. These organisations set up the Open University, Which? Magazine and many other organisations.
- The Foundation is working to create a more equal and just society, believing that inequality undermines the economy and corrodes wellbeing.

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