Credit where credit's due?

Understanding experiences of high cost credit in Wales

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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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 more detailed research report which supplements this summary 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]. For some, this can be a positive choice, quickly meeting their needs and more affordable than options such as an overdraft.

Nonetheless, debt has long been a problem for UK households. At the end of February 2016, outstanding UK consumer credit lending was a staggering £180.7 billion[3]. An estimated 16.8% of the UK population is over-indebted[4]. 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.

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 quality of life of individuals and families and in some cases on the life chances of children[5], including detrimental effects on physical and mental wellbeing[6,7].

Background to the research

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 price cap on 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[8].

However, other forms of high cost credit are still equally prevalent in Wales, particularly home credit and rent-to-own stores. 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[9]. There has also been strong support for the credit union movement in Wales but despite this, membership levels remain low.

1. Provident Financial Group (2014): Serving people in the non-standard credit market. http://files.providentfinancial.com/media/1513/pfg-ar2014-full.pdf

2. Brighthouse (2015): Annual Report 2014-15. https://www.brighthousegroup.co.uk/files/5214/3680/4384/BrightHouse_2015_Annual_Report.pdf

3. The Money Charity (2016): The Money Statistics April 2016 http://themoneycharity.org.uk/money-statistics/

4. Money Advice Service: A picture of over-indebtedness (2016)

5. Department for Work and Pensions and Department for Education, A New Approach to Child Poverty: Tackling the Causes of Disadvantage and Tranforming Families' Lives, April 2011, Cm 8061, para 2.49.

6. CSJ, Maxed Out: Serious Personal Debt in Britain, November 2013, p 87

7. Legal Services Research Centre (2007). A Helping Hand: The Impact of Debt Advice on People's Lives

8. Citizens Advice Bureau (2016): Payday loan problems halved since cap introduced. CAB

9. Tackling Poverty Action Plan. Welsh Government (2013) http://gov.wales/docs/dsjlg/publications/socialjustice/120625tackpovplanen.pdf

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

Our 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:
• A nationally representative survey of 1,000 members of the Welsh population (conducted in-person, June 2015);
• A survey of 134 customers of high cost credit and/ or credit unions across Wales (conducted in-person, October 2015);
• In-home depth interviews with 24 high cost credit customers;
• 9 focus groups with 77 high cost credit and affordable credit customers;
• Telephone interviews with 26 expert stakeholders.

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.

You can read some of the in-depth stories at the end of this report.

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 more likely to have borrowed from almost all sources except mainstream lenders; banks, building society and credit cards (see Figure 4). Overall, 6% of the Welsh population has taken out one or more of a home credit agreement, rent-to-own agreement, or payday loan in the last 12 months.

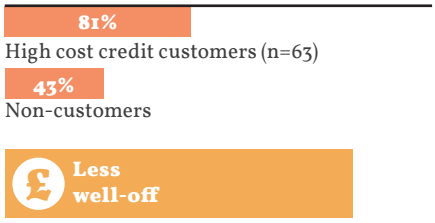
In particular, high cost credit customers are more likely than non-customers to also rely on loans from family and friends, make unauthorised use of overdrafts, and use mail order-catalogues.

"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)

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

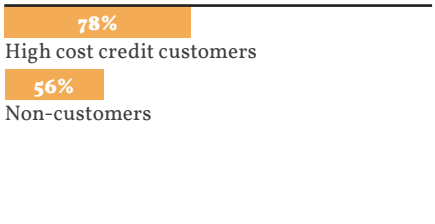
Less likely to own their home

FIGURE 1
Rent - council/ housing association/privately



Less well-off

FIGURE 2
In socio-economic group C2DE

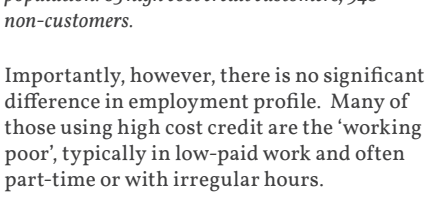


Younger, often with young families

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 no significant 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.

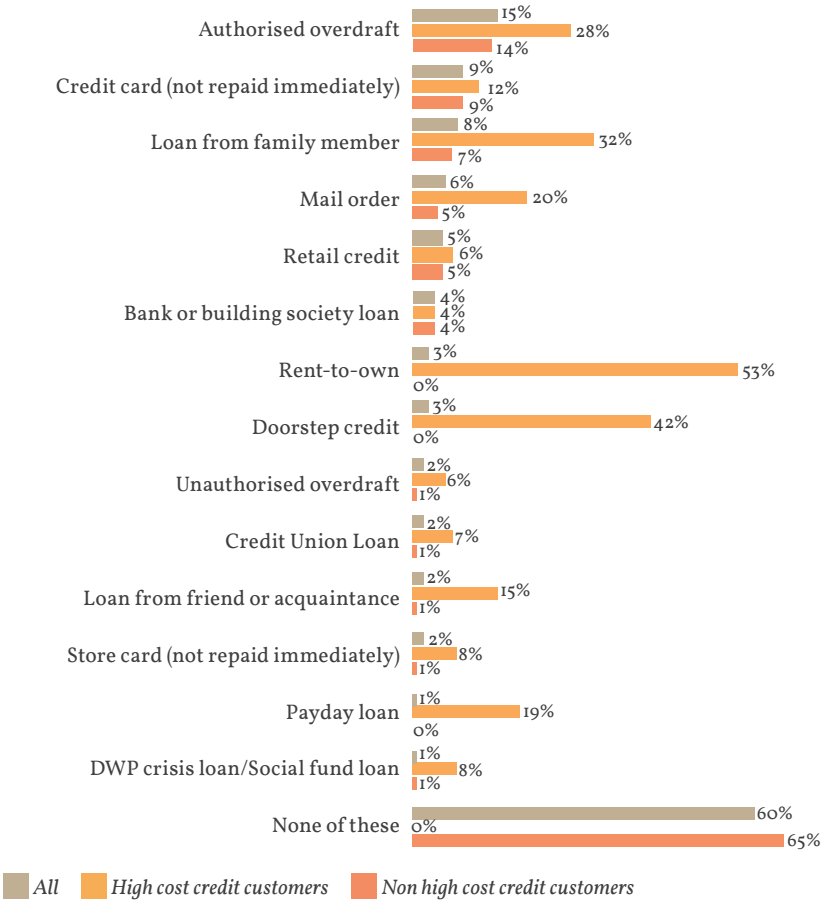
"I do five days a week and all the overtime that I can do as well because at the moment we've got to sort the money out for these kids for Christmas and everything ... it will be nice to get some money behind us." (Male, 25-34, High cost credit customer)

42% of high cost credit customers are in full/part-time employment, compared with **48% of non-customers.**

"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)

FIGURE 4
Types of credit used in the last 12 months

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



LIMITED FINANCIAL RESILIENCE

High cost credit customers are less likely to have a savings account than 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)

TABLE 2
Cash savings account

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

TABLE 3
Other savings account (e.g. ISA)

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

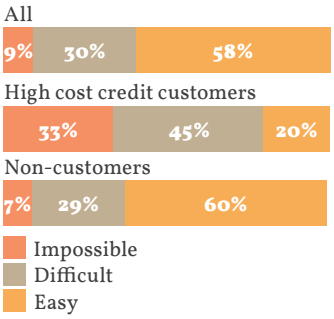
Base: Nationally representative survey of Welsh population. 63 high cost credit customers; 948 non-customers.

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 customers of high cost credit would struggle to find £200-300 without borrowing (see Figure 5). 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.

"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)

FIGURE 5
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.

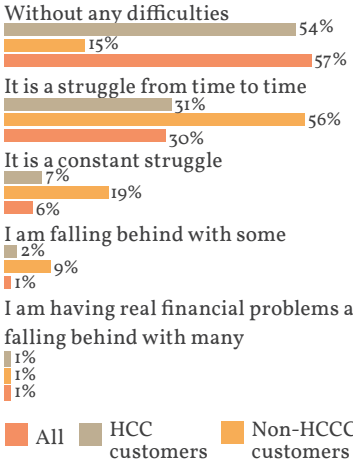


DIFFICULTIES MEETING COMMITMENTS

Their relatively low household incomes and lack of financial resilience means that, unsurprisingly, customers of high cost credit are more likely to experience difficulties with keeping up with their bills and credit commitments that non customers (see Figure 6). Only 15% keep up with them with no difficulties, compared with 57% of non-customers.

FIGURE 6
"How well are you keeping up with your bills and credit commitments at the moment?"

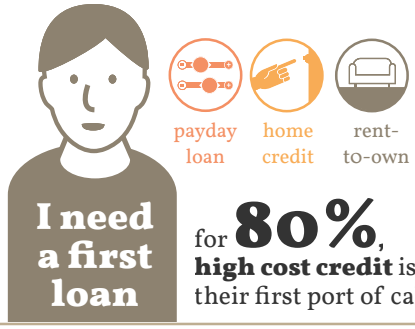
Base: Nationally representative survey of Welsh population. 63 high cost credit customers; 948 non-customers.



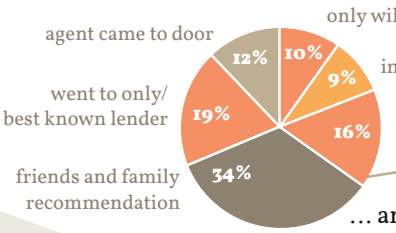
Sarah

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.

The high-cost credit journey

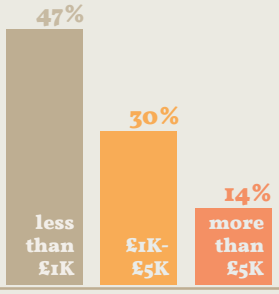


for **80%**, **high cost credit** is their first port of call



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

50% **have been encouraged by a lender** to borrow again



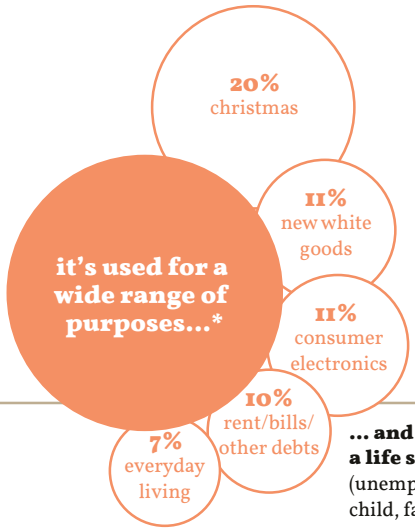
almost **half** of those with a current loan or credit agreement **owe over**

£1,000

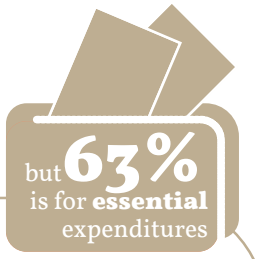
Data based on 103 people who have taken out either a payday loan, doorstep loan or hire purchase credit agreement within the last 12 months. Fieldwork took place in October 2015 and was conducted by Beaufort Research, face to face in areas of high footfall and in consumers' homes, in five locations across 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.



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



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

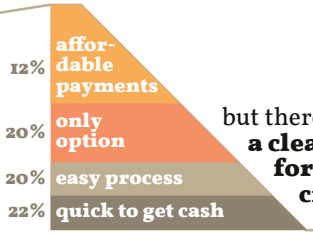
e.g. **loan** from a **family** member or a **friend**, **credit union**, **bank** or building society

lling lender

terest rate

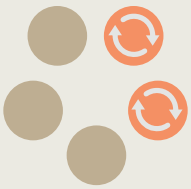
other

nd **recommendation** nportant in choice of ler



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 turned to this option from the outset, with no previous consideration of alternatives.** Those who did not use high cost credit for their first loan were most likely to have taken a loan from a bank or building society (7%). Other first loan options included a DWP crisis loan or Social Fund loan (3%), a credit union loan (5%), or borrowing on a credit card or using an unauthorised overdraft facility.

However, conversations with customers suggest there may be a degree of under-reporting 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 (1%) in our survey mentioned that their first loan was from a from a Mail Order catalogue.

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. Other reasons include home improvements, furniture, holidays and major events. Table 4 details the most common reasons for borrowing by type of credit.

"I just think I was short of cash. I needed food and things like that, you know, clothes."
- Gary

For 26% , the need for the loan was triggered by a 'life shock'. '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)

The majority of borrowers took out their first loan for essential purchases and **63% of borrowers 'definitely couldn't have gone without' what they purchased with their loan.**

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

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)

TABLE 4
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%)

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)*

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. The main alternatives considered were banks and building societies, a loan from a family member, or from a credit union (all 6%).

67% did not consider alternatives

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 7).

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

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%).

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.

FIGURE 7

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).

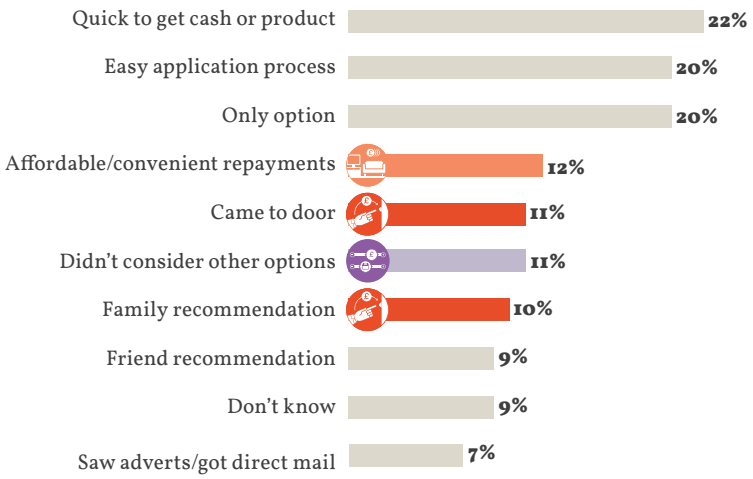
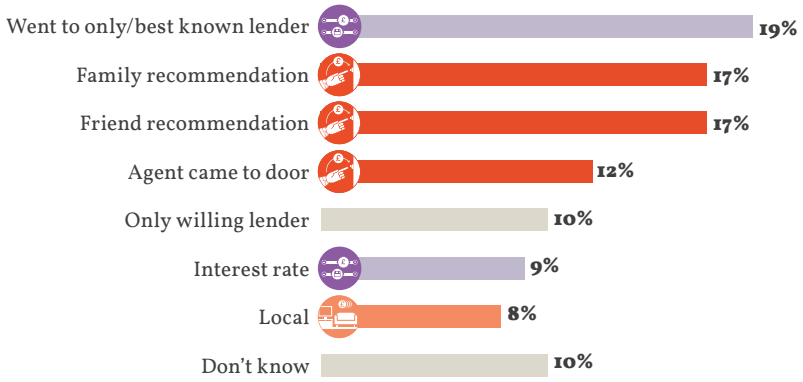


FIGURE 8

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)



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 (see Figure 8).

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.

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

Payday loan customers did not receive family 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)

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)*

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.

Of these repeat borrowers, two-fifths have been in debt all or most of the time since taking out their first loan (see Figure 9).

"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.

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)

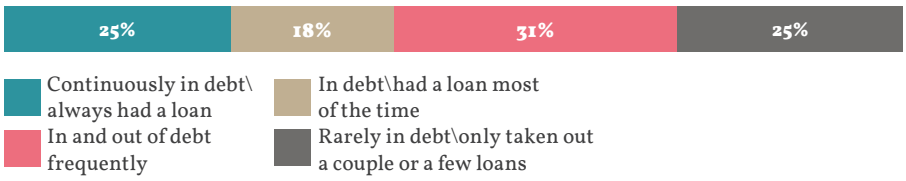
For others, patterns of continual borrowing can be more problematic. Some get into temporary difficulties but manage to break the cycle but at the worst end of the scale people slide into a spiral of increasing and unmanageable debt. Multiple loans and credit agreements from a wide range of lenders can 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)

FIGURE 9
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.



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.

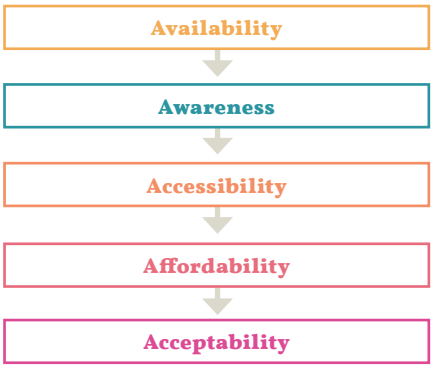
In a 'rational' world, consumers are expected to go through a considered process, evaluating their available options in the market, before making a decision about the products and services they buy. The risks of borrowing would be identified and thought given to how any unexpected difficulties in making 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 10
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)[1], which considered credit use from four psychological perspectives. Our model separates out "the situation" into two dimensions – the "personal situation" of the individual using credit, and "the market".

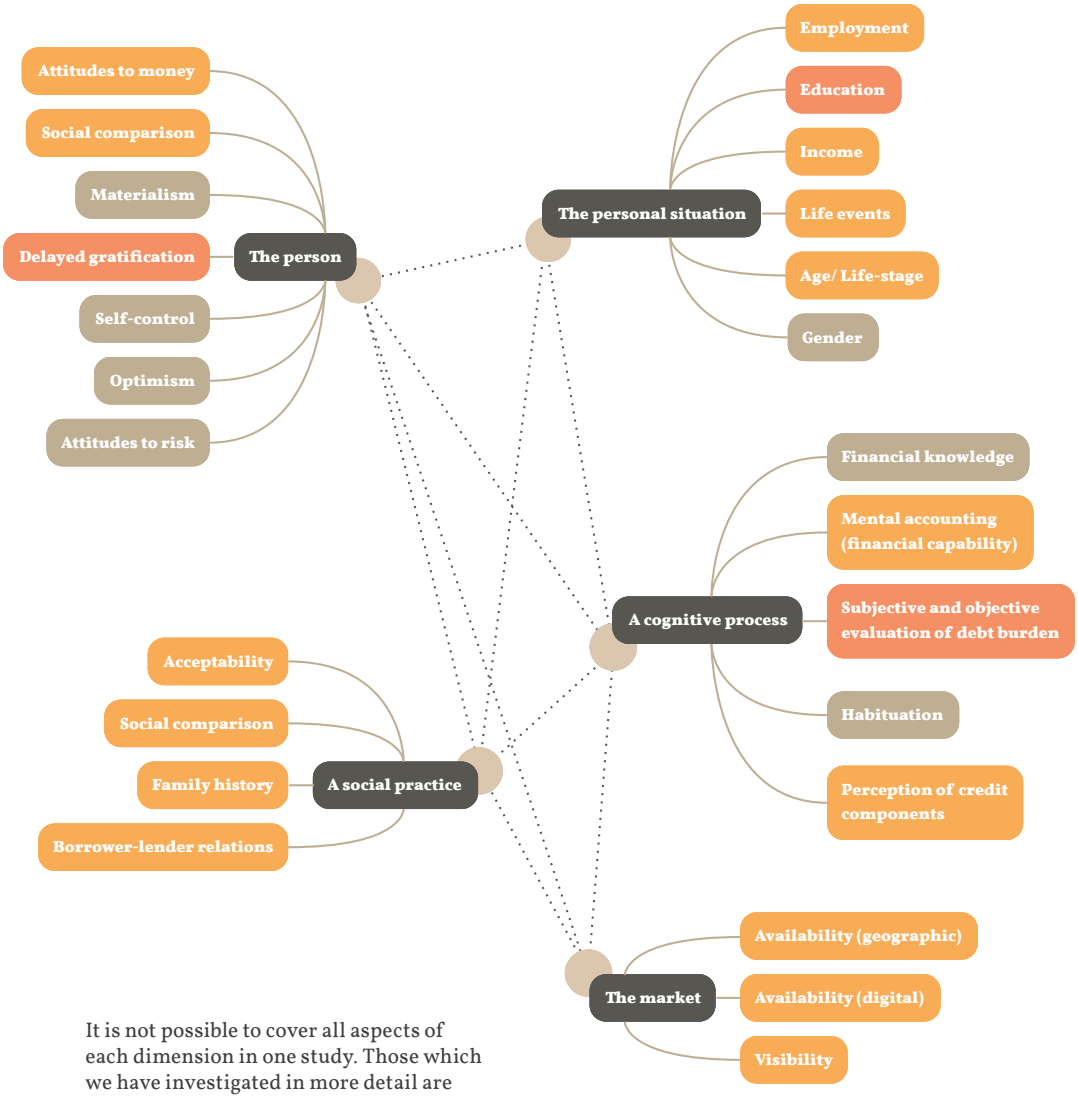
Figure 11 illustrates our model. Our research covers all five core perspectives but inevitably is more focused on some.

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,

1. Kamleitner, B., Hoelzl, E., & Kirchler, E. (2012). Credit use: Psychological perspectives on a multifaceted phenomenon. International Journal of Psychology, 47(1), 1-27.

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 11
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

A person's knowledge about finance and money management, and ability to manage it effectively can strongly influence the form of credit they choose. One important aspect of financial literacy and capability is an understanding of interest rates. This dictates how well customers understand their credit choices and the full consequences of their decisions.

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 12).

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). High cost customers are also significantly less likely to be able to calculate compound interest (10% compared to 26%). When customers are not fully aware of the true cost of borrowing, they can end up experiencing 'bill shock'.

"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)

"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)

However, financial capability is about much more than just understanding interest rates. It also includes people's ability to select a financial product using a wide set of skills and knowledge, as well as their ability to plan ahead, track and manage their finances, and understand financial issues. Low financial capability, or at least low confidence in their own ability, can impede customers shopping around for the best deal. The majority of customers focus purely on what is 'affordable' as repayment, be that weekly or a lump sum, without considering the APR.

"With [payday lender A] and that, they say this is the amount you have to repay, they never give it in black and white with credit cards. They always say this is the APR but they never give you the amount that's going to add on each month, the terms and conditions are always 15 pages long." (Female, 18-24)

MONEY MANAGEMENT STRATEGIES

Although many high cost credit customers perform poorly on the standard test of financial literacy relating to interest rates, this does

Test yourself!

Answers at the bottom of the page

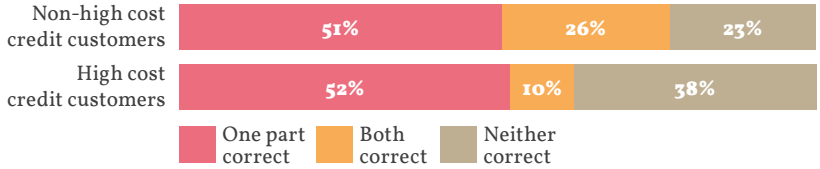
1. You have taken out a loan for £100, and the interest rate you are charged is 10 per cent per month. There are no other fees.
At this interest rate, **how much money would you owe in total after one month?**

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

FIGURE 12
Performance on financial literacy test

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



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. Necessity also drives a significant group of people to develop creative money management solutions (summarised in Figure 13). 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 and holidays, or to try and build a small 'rainy day fund'. Approaches range from traditional piggy banks, to formal savings accounts.

"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)

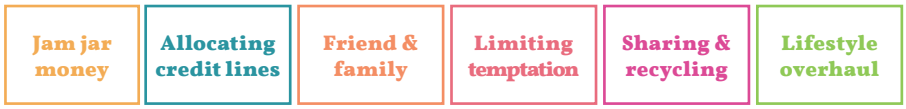
"I have two savings accounts. So one of them is the total emergency pot and the other one is for Christmas and things I might need." (Male, 45-54)

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. This means that if an unexpected cost comes up during the year, an alternative line of credit is required.

"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)

Some others find that allocating different benefits/income streams for different things can help to save for specific items or events.

FIGURE 13
Common strategies used for money management



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

Family and friends
Family and friends can sometimes play an 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)

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.

"My daughter'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." (Female, 45-54)

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, voucher schemes, or only taking cash out on shopping trips. Rent-to-own is also seen as positive for this reason as it guarantees the money is spent only on the 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)

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. 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.

"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)

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.

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."

attitudes to borrowing and saving

We know that attitudes are formed and shaped by a wide variety of influences and that in turn, attitudes help to shape behaviour. However, we also know that in reality people do not always behave as their stated beliefs might predict. This is true for high cost credit customers and attitudes to borrowing, debt and saving do not always align with behaviour.

ATTITUDES TO BORROWING

It's ok to borrow
The majority of high cost credit customers and non-customers disagree with the idea that "there is no excuse for borrowing money". Only 18% of non-customers and 8% of high cost credit customers actively agree with this statement (see Figure 14).

But people would prefer not to be in debt
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" (see Figure 15).

An acceptance of the need for borrowing, however, does not typically translate into being comfortable with having to borrow or being in debt.

"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."
Female, 65-74

The broad acceptance of borrowing as a necessary part of life is tempered by a belief that access to credit is often still too easy. Many high cost credit customers 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". Where customers place the 'blame' can vary, from themselves, to societal pressures, to lender pressure :

It is inevitable given the pressures of everyday life
"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."
(Female, 35-44)

It is because of a personal failing or weakness
"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)

The lender encourages borrowing
"They probably should've held off from saying, 'Have, have, have'."

While 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 do feel that the checks and limits on borrowing could be tightened to reduce the number of people who find themselves in serious problems.

"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'."
(Male, 18-24)

On reflection...
Those who have experienced high levels of debt, or been in trapped in cycles of bor-

FIGURE 14
Disagreement with the statement "There is no excuse for borrowing money"

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

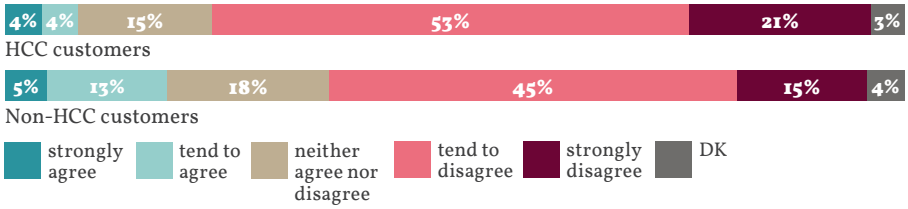
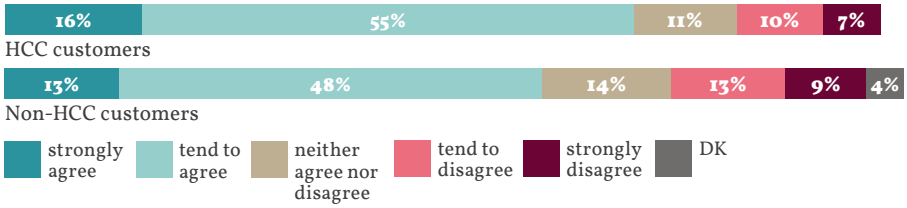


FIGURE 15
Agreement with the statement "It is okay to be in debt if you can pay it off"

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



rowing are particularly inclined to look back on their experience and identify times when they feel credit shouldn't have been extended to them, including from mainstream lenders. 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.

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 - we live in a society which enables people to spread the cost of cars, home furnishings and other consumer goods by purchasing 'on finance'.

High cost credit customers are typically low income and hold low levels of savings; most would have difficulty in raising even £200-300. This means that purchasing even a relatively inexpensive item like a new oven or bed is beyond most without borrowing. 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

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."

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 16).

As with borrowing attitudes and behaviour, there are also 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)

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 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)

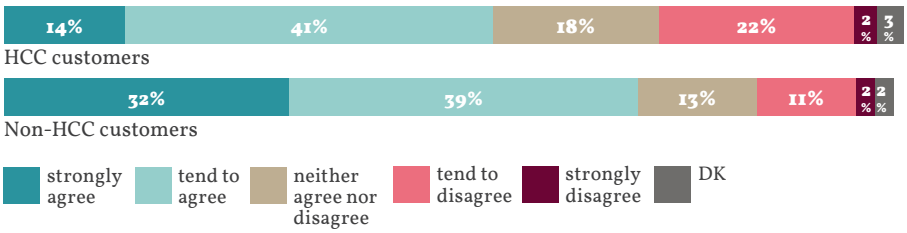
Savings habits

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 16

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

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



People have a number of ways in doing this:

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)

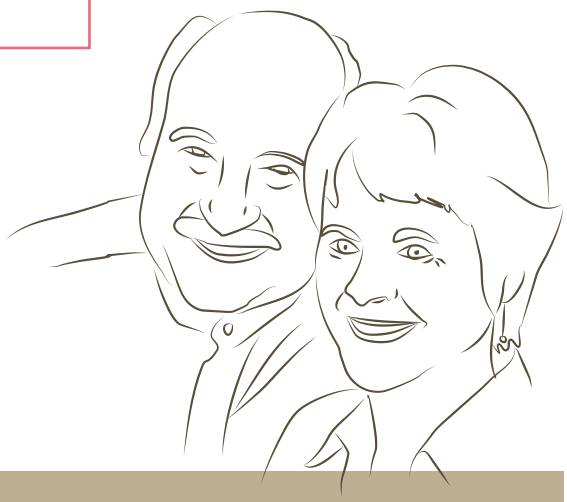
Using formal savings accounts
(most common with those who borrow from Credit Unions or Moneyline)

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

Using a savings account offered by lenders

Affordable credit providers, such as credit unions and Moneyline both 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 usually remains low but customers are typically extremely positive about the habit they are building, as an emergency buffer or for their children's future.



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 customers of high cost credit are living in communities where families, friends and neighbours borrow money on a regular basis, also from high cost lenders. 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 (see Figure 17).

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. This is significantly more than non-customers, but even among this group, four-fifths (81%) agree.

The visibility of borrowing, especially new household goods or home furnishings, can increase the perception it is common and tap into natural tendencies for social comparison and a desire to belong.

FIGURE 17
Indicators of borrowing as a social norm

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

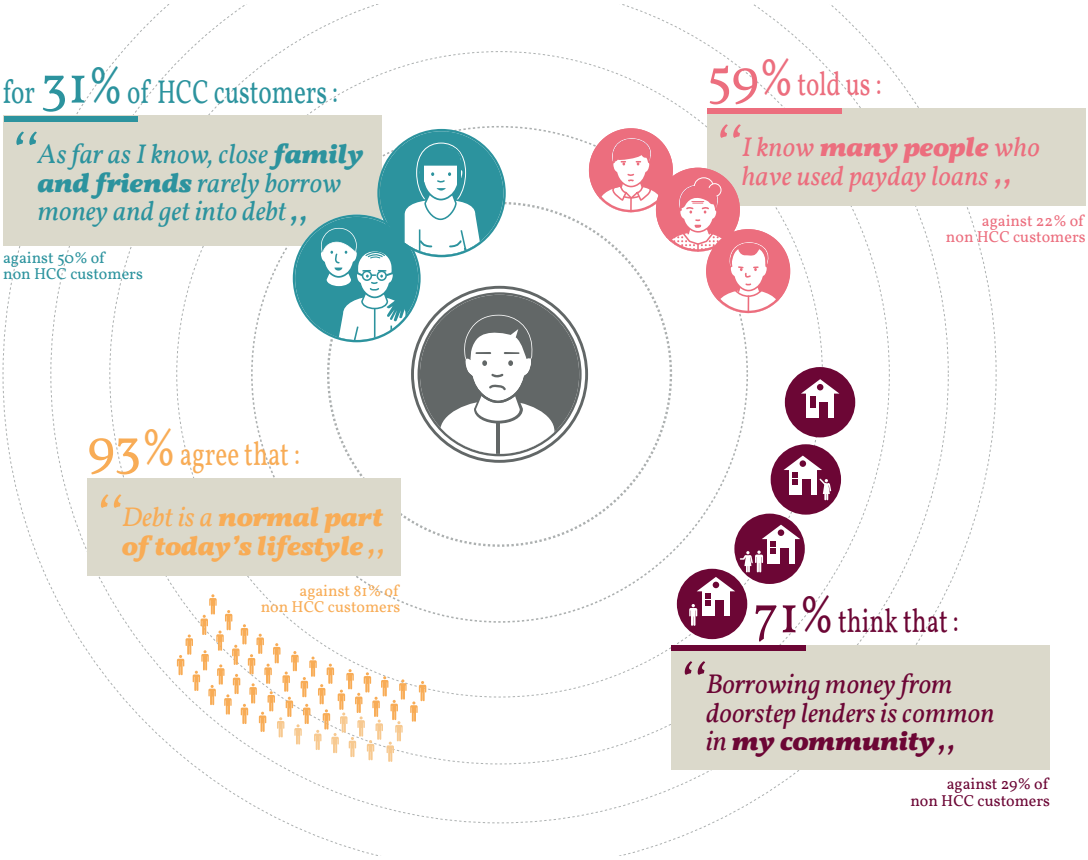
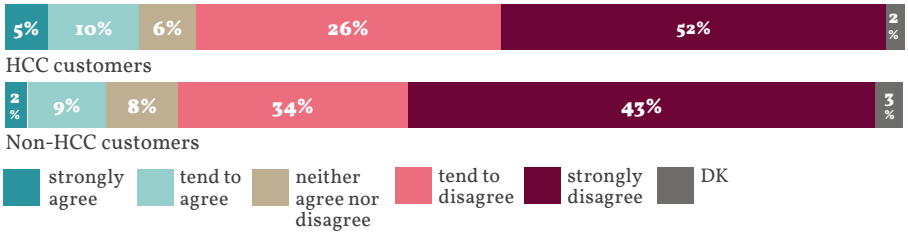


FIGURE 18
Agreement with the statement "I would rather be in debt than change my lifestyle"

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



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

"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)

"And it's so tempting, when your friend's just had something new and you think, 'I could do with a new..."
Female, 25-34

People also feel social pressure because they want their children to have the best and 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, or school uniforms and trips.

However, even simple things such as trips to visit family, or a short-break can become a trigger to borrowing. Social activities or paying for children's entertainment in holidays become 'luxuries' rather than important and valid expenditure which supports people's participation in their community and society.

"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. Like the rest of the population, the vast majority of high cost credit customers are willing to make lifestyle compromises to try and avoid borrowing (see Figure 18).

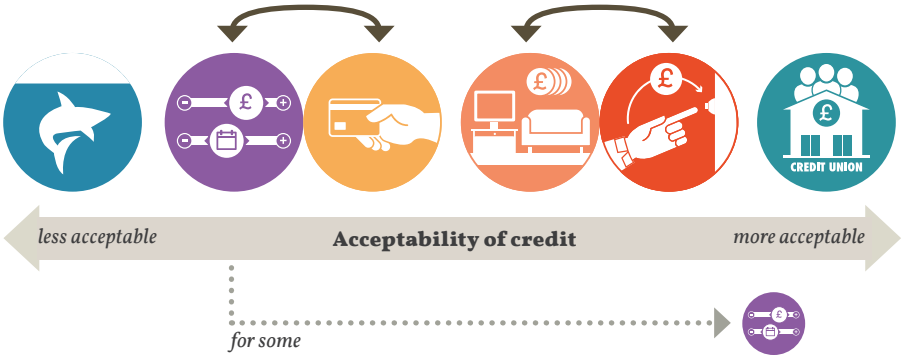
"I manage on the money we've got, you know, they don't go without anything. We've always got food in the cupboards, gas, electric, heating ... I've just realised that I don't need money all the time and the kids don't need everything they see." (Female, 45-54)

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 19).

FIGURE 19
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.**

• Customers are often enthusiastic in their support and keen to recommend these lenders to family and friends

• The lower rates of interest and typically supportive, flexible response people receive when they face difficulties are highlighted as reasons for trust.

"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)

• Many customers have also been encouraged to start saving for the first time and helped them to make positive financial changes

However, credit unions and other affordable lenders such as Moneyline are some of the least common forms of borrowing.

• 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, including the need to save first.

This does not make credit unions less socially acceptable, but it does reduce its attractiveness to some potential customers. Some experts also feel that the social acceptability of credit unions is damaged by the perception that "most of the people think we're a poor man's bank. Credit unions are for you, not for me".

Next on the spectrum are **home credit and rent-to-own providers**.

Such forms of credit and borrowing are so common that they do not typically merit much comment. Almost everyone feels that they are very expensive options, but often that they do not have many alternatives.

Home Credit

• 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."* (Female, 35-44)

• Although many value the convenience of doorstep collection, there are some who feel a degree of shame and prefer not have weekly

callers who can be seen by neighbours, regardless of whether everyone else is doing it too.

• But sometimes seen as predatory which leads people to borrow more than they need, including when agents encourage repeat borrowing, even when the customer may not have a specific need.

Rent-to-own

• Customers will often make recommendations to family and friends, not least due to retailer incentives to do so.

• Benefits from its presence on the high street and the visibility of goods in the homes of family and friends.

• 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, 18-24)

Mainstream lending options appear significantly along the spectrum, reflecting a high degree of distrust in banks and building societies.

Bank loans & credit cards

Approaching a bank or building society for a loan is generally seen as an unwise course of action for a number of reasons:

• Most high cost credit customers perceive it to be a waste of time as banks are not really interested in them as customers. This stems partly from the belief that their poor credit scores mean banks would not be interested in lending to them, and that a lack of saving makes them less attractive. *"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)

• Negative experiences of family and friends with bank loans or credit cards and who struggled with repayments serve as cautionary tales and a deterrent.

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.

• Banks are seen as somehow more 'official' and less "human". This translates into a perception that they are 'powerful' and the implications of missing payments or defaulting would be more serious as a consequence. *"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?"."* (Male, 35-44)

However, some have aspirations to improve their credit score and credit cards are recognised as being a useful way of doing this or for emergencies.

Payday loans

For the majority, **payday loans** are relatively far down the spectrum of acceptability. However, it is important to note that for some customers, this type of short-term credit is useful, appropriate and viewed very positively. As such, it plays an important part in the overall consumer credit mix.

• For some customers, payday loans offer a quick and cost-effective solution to a short-term credit need. The speed of receiving a decision and the cash, as well as for some the ability to do it online, are notable advantages.

But for the majority, they are not seen as a particularly desirable option.

• For a significant group, they are simply not an option because they do not have a sufficiently high credit score, particularly since the introduction of the cap. 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.

• The requirement to pay back a loan in a lump sum is a deterrent for many who prefer weekly payments to make sure the loan is affordable in the context of their regular outgoings. 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 this.

• Media coverage, typically condemnatory, has influenced perceptions. The prevailing narrative of high interest and revolving loans is well-rehearsed, often reinforced by personal experience or that of family and friends.

• Its associations with problem debt are seen to imply that you have not managed your money well. Consequently, people are less likely to discuss having taken out a payday loan with family or friends.

"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 … Because I think you don't want to justify to people that you live beyond your means" (Female, 18-24)

Illegal money lenders

And at the far end of the spectrum are **illegal money 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.

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 while on the other side, staff who work for lenders themselves can also play an important part in shaping 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 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. Of course, children do not always listen to their parents, or vice-versa, and it can occasionally lead to those who believe they have behaved contrary to expectations feeling too ashamed to ask for help.

"They do not like debt. They always told me, 'Do not get a credit card'."
Female, 18-24

"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)

Family and friends can also 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 differences in the ways in which different types of credit are recommended:

Home Credit

Often involves a direct referral to a specific agent
"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

Rent-to-own

Recommendations are often driven partly by retailer incentives to 'introduce' a friend.
"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." (Female, 25-34)

Payday loans

Recommendations are less common overall, and tend to be more limited to cautionary tales.
"I went to [payday lender A] because my sister took a [payday loan B] and she had trouble." (Female, 35-44)

Affordable Lenders

Recommendations often driven by the lower APR as well as positive customer experience. Some affordable lenders also benefit from recommendations via housing associations or employers.
"Everyone in [town] has them … 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)

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.

This can be through **helping to break a family member or friends' cycle of borrowing**, providing practical assistance in the form of interest-free loans or help with providing essentials while debt repayments are made, and/or by 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."* (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)

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.

"My mum gets my child benefit going to her bank, and my phone, my car insurance comes out of her bank … If I missed a payment, I'd be driving round with no insurance, and my phone getting cut off, you know; they're the two main things I need." (Female, 25-34)

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".

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. 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. … But the one I had when I lived in [another town], 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)

"But then you've to watch these callers who come out to empty [pay-as-you-view boxes] because they're so cunning … 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)

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.

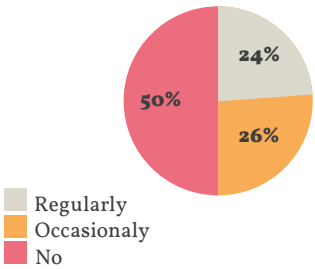
Many lenders themselves play an important part in this by offering new loans or credit agreements to customers, typically when customers have paid off most of a current loan or shortly after. For almost one-quarter (24%) this happens on a regular basis, and for another quarter (26%) it is at least an occasional occurrence (see Figure 20).

35% of customers have **taken up another loan**, when offered, at least once

16% have done so **on a regular basis**

FIGURE 20
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



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:

Home Credit

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. 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 the agent and it is a regular source of credit which consumers know they will rely on in the future. It is not welcomed but is recognised as an inherent part of the lending model.

"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.'" (Female, 35-44)

Rent-to-own

Some rent-to-own customers feel they are subject to 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.

"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)

Mainstream lenders

It is not only high cost lenders known to encourage repeat borrowing. Those who have used credit cards and catalogues are often quick to identify them as using hard marketing tactics, leaving one woman feeling as though her 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)

Pay day loans & credit unions

Mentions of this type of contact are rare among payday loan customers and credit union customers.

However, lender encouragement of repeat borrowing is not restricted to in-person interactions. 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 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 ... you've gotta say no." (Female, 35-44, payday loan customer)

"They had a regular automated phone call service ... 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)

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.

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." (Female, 55-64)

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 and/or expensive. In some instances, the cost of travel to a more affordable lender can significantly reduce the savings obtained.

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.

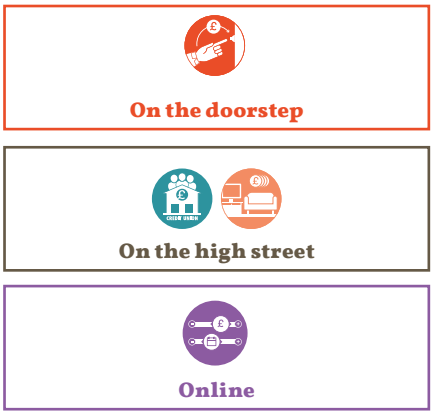
"I can't get out and about like I used to. Since I've been bad, I think I've been to town once in twelve months. If I want to go anywhere, well, I get on my scooter... My friend's exactly the same as me, she don't go far, so we're in the same boat." (Female, 65-74)

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, 65-74)

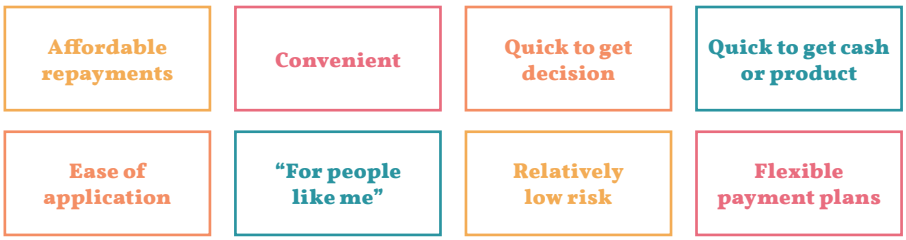
AWARENESS

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.



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

FIGURE 21
Attractive features of high cost credit products



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, 45-54)

"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.

This seems to be helped by the fact that the main downside to high cost credit is its expense, yet the total cost of borrowing is something that the majority do not consider as closely as the weekly or fortnightly repayment rate. This means that the positive benefits of the loan being affordable on a weekly basis are more top of mind than the total cost of borrowing on the negative side.

Overall, high cost credit products are perceived to tick all or most of the boxes that customers require (see Figure 21). Few, if any, of the alternatives on the market achieve this. It is available and accessible, there is a high level of awareness and acceptability, and (at least at the time of borrowing) it is usually seen as affordable.

"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)

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.

Overall, however, rapid access to cash or the products, along with a relatively simple application process are also hugely important features, and seen as differentiators from many mainstream or more affordable credit options. The speed of decision-making and accessing the credit is particularly important for those who have an urgent or unexpected need.

"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, 35-44, payday loan customer)

"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, home credit customer)

However, both ease of application and speed of access 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)

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.

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.

51% of high cost credit customers have experienced difficulties repaying their loan.

24% on one loan and **27% on more than one loan**.

The type and severity of difficulties also varies hugely between customers but supportive lenders can help find solutions. Of those who have had difficulties, 79% missed one or multiple payments and one-third have negotiated a reduced amount (see Figure 22). A smaller proportion of customers find themselves in serious difficulties, such as ending up with a County Court Judgement, Individual Voluntary Arrangement or Debt Relief Order.

"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)

Repayment problems often 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. This can be because of poor financial literacy, particularly around interest rates, or do to a lack of attention to information at the time of purchase.

"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.'." (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

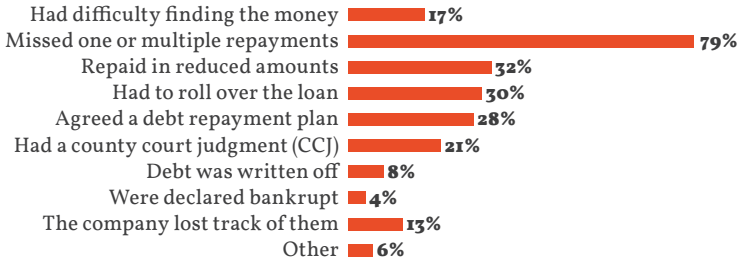
Despite the high levels of missed payments only 31% of high cost credit customers characterise their experience of borrowing as flatly 'negative'. This suggests that struggling to repay does not necessarily mean a bad experience of borrowing.

Figure 23 shows how high cost credit customers evaluate the overall impact of bor-

People who used home credit were more likely to have experienced **difficulties making repayments**. 69% experienced difficulties repaying loans generally and 44% experienced problems on multiple loans.

FIGURE 22
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.



rowing on their quality of life, in comparison to credit union customers. High cost credit customers are significantly more likely to have had negative experiences of debt than those who have taken out a loan from a credit union in the last year, almost half of whom characterised their experience as 'positive'.

IMPACTS ON WELLBEING

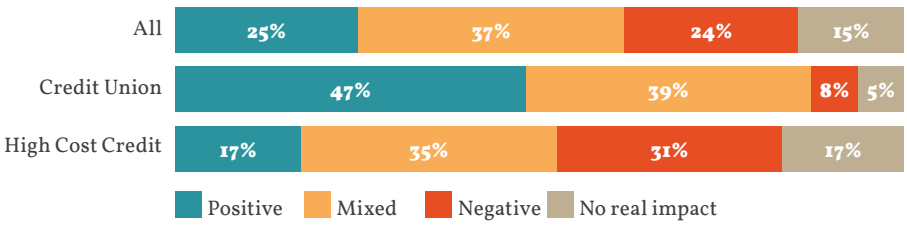
For those who cannot manage the burden of debt, borrowing can have wide ranging and potentially serious impacts on issues like health, financial security and relationships with others. Importantly all of these issues can exacerbate one another and create multiple problems for customers. This seems particularly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

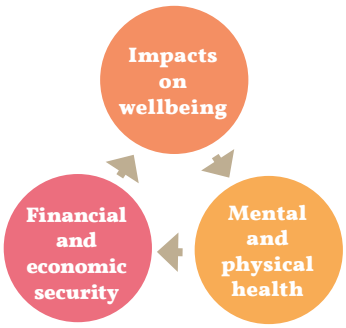
"I've got bipolar, and because of the spending, because I was really bad, I could have a debt in and I'm like, 'Right, I've got the money there,' and I think, 'No, come on, kids, we'll go out shopping.'" (Female, 18-24)

The impacts of borrowing can be broadly grouped into three categories: mental and physical health; social wellbeing; and financial and economic security. Overall, 57% of high cost credit customers report that they have experienced at least one adverse impact as a result of their borrowing.

FIGURE 23
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.





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. 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. The overlap with mental health is also evident in people taking time of sick as a result of the worry.

"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)

20% of households where there is someone with a long-term illness or disability have trouble paying their rent.

"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)

MENTAL AND PHYSICAL HEALTH

42% of high cost credit customers state that adult members of their household have experienced anxiety, stress or other mental health problems as a result of being in debt.

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 worrying, to anxiety, or even severe depression.

"[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 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." (Female, 18-24)

It is more common in households with just one working adult, where there is someone who has a long term illness or is disabled in the household, and is linked to higher levels of debt.

Among those who are currently in debt of **£5,000** or more

67% have experienced emotional or psychological strain as a result

"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)

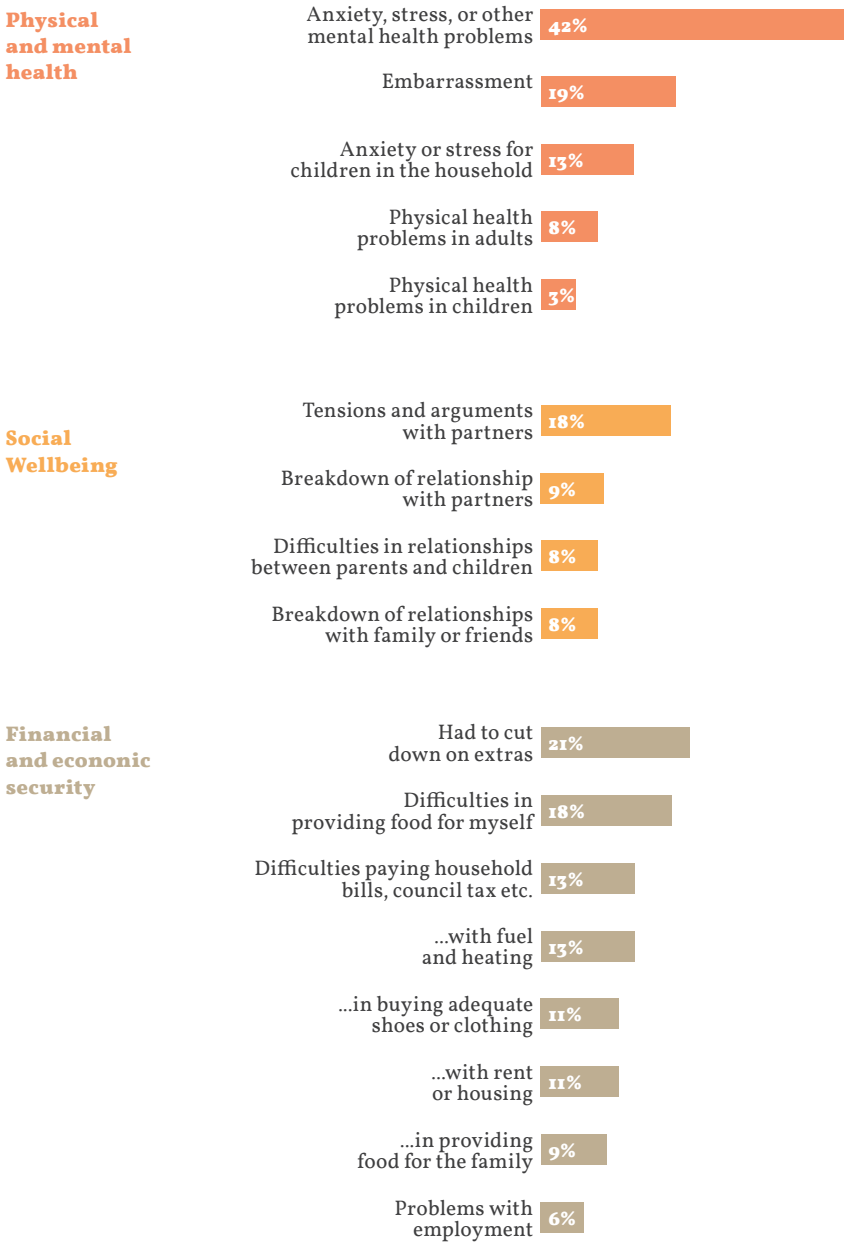
SOCIAL WELLBEING

Negative experiences of borrowing can also undermine relationships with loved ones. 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.

18% of high cost credit customers say that debt placed a strain on their relationships.

FIGURE 24
Impacts of borrowing

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



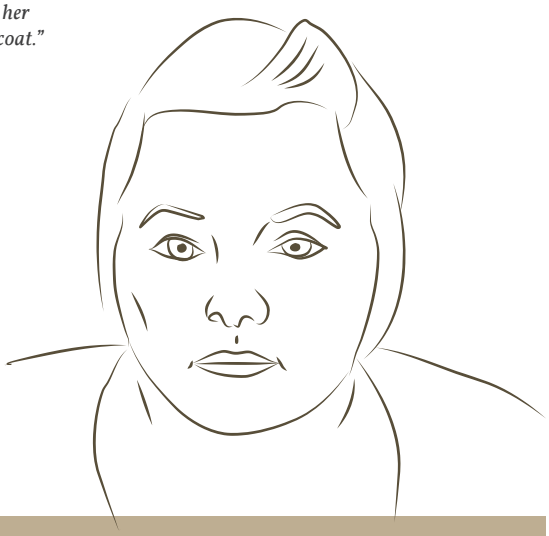
As with many of the other negative impacts of debt, tension and arguments with partners are also more likely to have been experienced by people who currently have two or more loans, and when current debt is over £1,000.

Debt can also impact upon the relationship of parents with children and on 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 afford items that would make them feel 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)

Whilst getting in to debt can have very negative impacts upon people it is also important to note that some people turn this into a positive experience for themselves and sometimes for others.

They 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.



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.

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 25).

Barriers to getting help
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. The majority say that if they were in enough debt then they would be happy to go and seek help.

For some, 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.

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."

A common pattern of thinking is that if you have caused your own problems, it is your responsibility to solve them.

There is 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 too mount up, and so the cycle perpetuates. Others know deep-down that they need help, but find it *"easier to bury your head in the sand sometimes"*. These feelings often mean that people are not even comfortable talking to family or friends about their problems.

"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 don't know, just-, 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)

Other barriers to accessing advice are more practical. There are some people who still don't know where to turn if they are in trouble, while others struggle to get an appointment at busy services or at a convenient time.

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

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.

Other barriers to accessing advice are more practical. There are some people who still don't know where to turn if they are in trouble, while others struggle to get an appointment at busy services or at a convenient time.

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

Using advice services
Advice services are often highly valued for the services that they provide.

FIGURE 25

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

"I can't even put it into words. So grateful to them because they've given me the tools I need to negotiate … They've never failed me. It was brilliant." (Female, 18-24)

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. 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, 45-55)

"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)

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.

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 - 'Can't afford to pay my rent, or water or TV license'. It's just a simple comment… and you'll say to somebody, 'go and talk to them'." (Female, 45-55)

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."

making a change

High cost credit customers are keen to see significant change in the consumer credit market. Self-evidently, **the priority is greater access to more affordable credit options**, reducing the high levels of premium they currently pay. Yet there is also a strong feeling that this needs to happen hand-in-hand with improved promotion of alternatives. **It must be supported by better promotion and increased availability of advice services for those who need it.**

At the same time, customers 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. A few customers also advocate for stronger controls on borrowing for certain groups.

EDUCATION

The importance of education is highlighted repeatedly.

Young people in particular talk about the importance of better financial capability education that emphasises real stories, delivered by people speaking from first-hand experience. Similar sentiments are also expressed by some older people, concerned for the next generation.

FIGURE 25
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

"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." (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)

From personal experience, young people are also keen to emphasise that the information is particularly important in the lead-up to leaving school and potentially leaving home for the first time.

"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." (Female, 18-24)

PROTECTION FOR YOUNG AND VULNERABLE PEOPLE

Some high cost credit customers also feel that young people should be more protected from making choices which may negatively impact their lives for many years to come. 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.

"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)

"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)

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 places." (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 … 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)

WARNING AT POINT OF PURCHASE

Recognising the value of a wide range of available credit products, and that their suitability for each individual will vary, customers 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.

"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." (Male, 25-34)

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

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.

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
Building on the model of self-exclusion in the gambling sector, we recommend the establishment of transparent and consistent process across credit reference agencies which will enable individuals to register a wish to be refused access to particular types of credit. 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

We strongly support the recommendations made in The Financial Capability Strategy for Wales and so do not repeat that detail here. 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.

5. Support the creation of local peer-led financial education and advice

1. Financial Inclusion Strategy for Wales 2016, Welsh Government
http://gov.wales/docs/dsjlg/publications/comm/160316-financial-inclusion-strategy-2016-en.pdf

programmes
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.

5. 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. 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

8. Development of pre-tenancy guidelines
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 and signposting to information on money saving, affordable lenders, and advice services.

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 and local authority residents
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

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.

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 affordable credit products and services is often led by charitable groups or social enterprises with limited financial resources. 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; Programmes to support knowledge transfer; and new product development.

THE MARKET PLACE

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.

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 5). 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

TABLE 5
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.

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 detail 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.

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.

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.

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 over-time. 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.

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."

46

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."

KEY INFLUENCES IN PRODUCT AND LENDER CHOICE

~

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.

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.

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

"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"

"About 3 years ago I took out money when my eldest started secondary school because the uniform was more expensive"

"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"

"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"

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 everyday 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

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 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.

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

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."

"I haven't had one since last Christmas but … "

Credit Union

"Since last Christmas they take £25 a week from my account. I borrow £1,000 for Christmas."

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".

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

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"

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."

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".

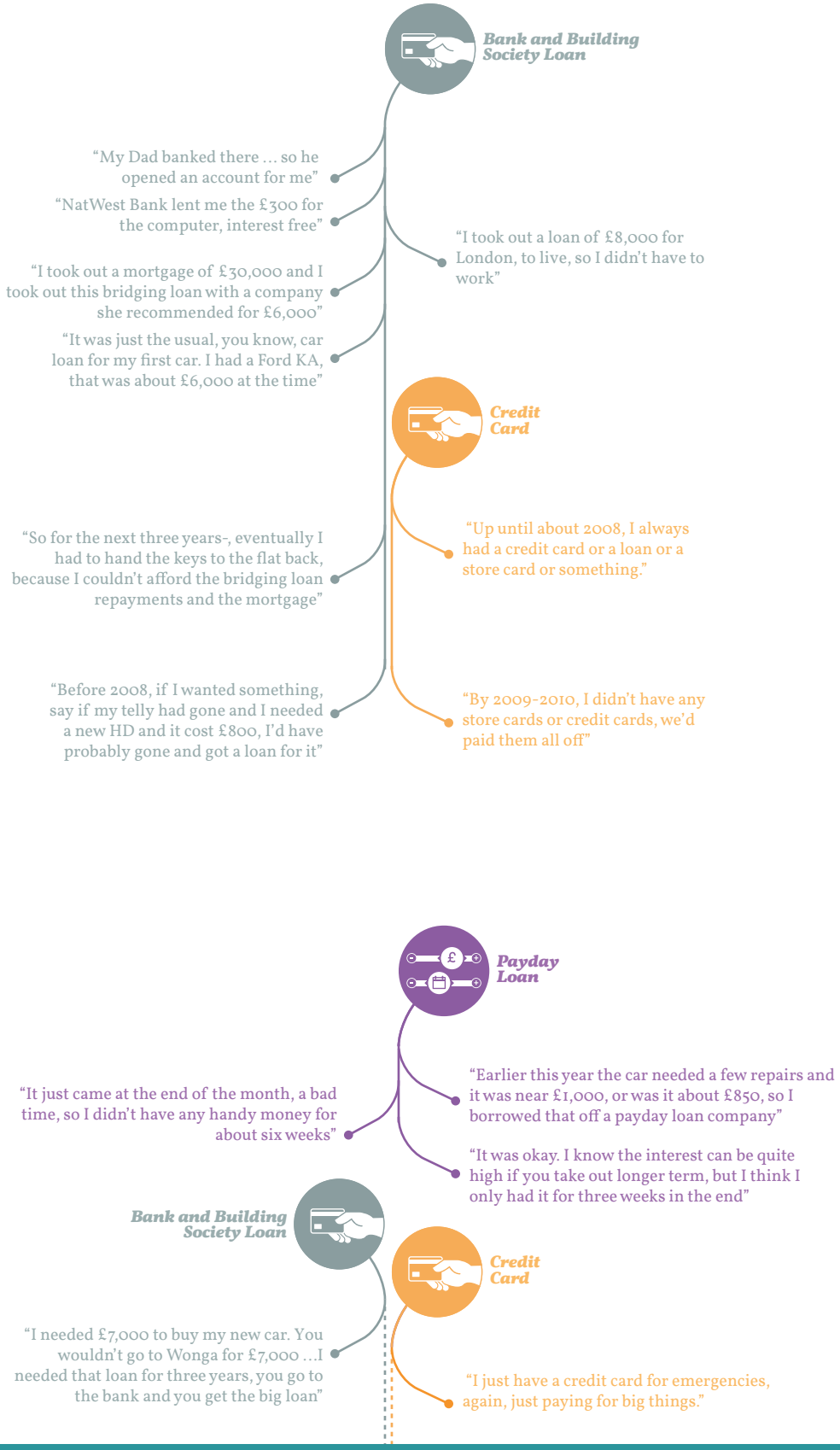
Joel tends to try and pay for the majority of his bills by Direct Debit, on the first of the month, after he gets paid. "So, hopefully, everything has gone out and then, for the rest of the month, I at least know what I have left is just for me to spend, so if it runs out then it's not like I can't pay 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."


Bank and Building Society Loan
"My Dad banked there … so he opened an account for me"
"NatWest Bank lent me the £300 for the computer, interest free"
"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"
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"
"By 2009-2010, I didn't have any store cards or credit cards, we'd paid them all off"
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."
18
21
26
36
44

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 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.