

access to credit on a low income

a study into how people on low incomes in Liverpool
access and use consumer credit.

acknowledgements

This study was the idea of Chris Smith, Group Corporate Affairs Manager at The Co-operative Bank. Following discussions with Liverpool's Furniture Resource Centre about creating a credit union to serve the customers of its Revive store, Chris felt that it was important to develop a wider understanding of how people on low incomes access and use credit facilities. This subsequently became the focus of the study commissioned by The Co-operative Bank. It was undertaken by Liverpool John Moores University in collaboration with the Norris Green and Anfield Citizens Advice Bureaux, Revive and the Furniture Resource Centre Credit Union Steering Group. The research on which the study is based was conducted in Liverpool between October 2000 and March 2001.

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foreword

Ready and immediate access to credit has led the UK into a lending boom. Consumer debt is at record levels and a seemingly endless supply of easy credit is available through store cards, loans, overdrafts and hire purchase schemes.

However, these credit facilities are not available to everyone. Britain's financially excluded have a different story to tell. For the millions who are at the margins of society, mainstream credit is often not an option. Extra money to finance basic needs like furniture or children's clothing comes instead from a flourishing alternative lending market encompassing everything from mail order catalogues, home credit, tontines and as a last resort unlicensed money lenders.

Many banks have launched initiatives designed to alleviate the problems faced by Britain's financially excluded. For example The Co-operative Bank has introduced a basic bank account, a specific account for refugees and have overcome the identification problems which prevented homeless Big Issue sellers obtaining a bank account. However, we realise that there is still much more that needs to be done, not necessarily by the banks, in order to help improve the access to finance for people on low incomes.

Before national and local Government, the Financial Services Authority, credit unions and other credit providers can find solutions they need to further understand the problems.

This qualitative research study by Paul Jones from John Moores University, Liverpool, explores why and how people on low incomes access and use credit facilities. It aims to deepen our understanding of the financial choices of low income consumers and in so doing will help to inform policy makers and regulators responsible for the future development of credit regulations.

This is an important step forward in the understanding of this sector and one which The Co-operative Bank is delighted to have initiated.

Chris Smith, Group Corporate Affairs Manager, The Co-operative Bank.

1 introduction

Low income and financial exclusion

We live in a society in which many people have ready and immediate access to credit. Loans, overdrafts, store and credit card accounts are all available through a growing, and increasingly sophisticated, financial services industry. Advances in information technology, computer-based credit scoring and the direct (non face-to-face) selling of credit have expanded the consumer credit market considerably over recent years. Undoubtedly, with this expansion have come additional benefits and greater choice for many consumers. At the same time, however, millions of other people have found themselves increasingly marginalised, or even excluded, from mainstream credit services¹. Predominantly these “*vulnerable*” consumers are people on low incomes. Thus, in 1999, the Office of Fair Trading stressed, in its report of the Director General’s Enquiry, that financial vulnerability and exclusion are “*to a considerable extent associated with low income*” (OFT 1999). People on welfare benefits or low incomes are not central to the marketing programmes of mainstream credit providers; they are not sent information about their latest credit products and they are certainly not sought out as valued customers. On the grounds that they are non-profitable and too risky to be regarded as serious customers, most mainstream credit providers make access to their services very difficult, and often impossible, for people on low incomes.

The need for credit

Yet, like everyone else, the vast majority of people on low incomes have occasional, or even regular, need to access credit facilities. Finding the ready cash for a new washing machine when the old one breaks down, or for new beds for the children, is rarely an option. But neither is getting a bank loan, using a credit card, opening a High Street store card account or running up an overdraft. Certainly, because of mechanical credit scoring techniques, it is likely that they would be refused such forms of credit if they applied, but, more often, people on low incomes do not apply because they assume that they will be refused. They may seek help from family and friends. Probably they will apply for a Social Fund loan but the amount they may be granted may be small or they may even be turned down altogether. A few may approach a credit union if one is available and they know of its existence. Yet for the financially marginalised, there is often little choice but to use the services of a range of alternative credit providers that are willing to lend to low income groups. Among these alternative lenders are mail order catalogues, doorstep credit companies (such as Provident Financial), some retail purchase shops (such as Crazy George’s), pawn shops, sell and buy back shops (such as Cash Converters) and unlicensed lenders (loan sharks). They all provide forms of consumer credit and are extensively used by large numbers of people on low incomes. People do obtain the credit they need but, for the most part, these alternative credit providers make very expensive charges for their services and offer poorer terms and conditions than are found within the mainstream credit industry.

Making choices

This research study explores the ways in which people on low incomes access and make use of credit facilities. It concerns the choices people make about credit and tries to reveal the reasons and factors that lie behind those choices. It may, and quite rightly, be argued that people on low incomes have very little choice when it comes to accessing credit. It may too be argued that exploring the factors that influence that modicum of choice is itself a limited exercise. But, despite constraints, people do in fact make choices. Based on personal judgement and experience, they choose the services of one particular lender rather than another. Many more choose home credit, for example, than they do credit unions; thousands choose to shop at Crazy George's and not at Revive, and people are often much more comfortable using the services of a local pawn shop than those of an unlicensed money lender. These choices are rational, often considered and respond to people's perceived needs and interests. However, it has to be recognised that there is also a significant number of people whose ability to choose is even more severely limited, if it exists at all. For various reasons, they find themselves excluded by the alternative credit market itself. They may live in an area where home credit collectors will not operate or in one that has been red-lined by catalogue companies. They have little choice but to exist without credit, depend on family and friends or, in the last resort, turn to unlicensed money lenders.

¹ Kempson, Whyley, and Caskey (2000) estimate that 1.5 million households in Britain lack any financial products at all and that there are 4.4 million people on the margins of financial services. These latter usually have no more than a bank account.

2 the research project

2.1 Background to the Study

Liverpool's Furniture Resource Centre (FRC) is a social business which manufactures and recycles furniture primarily for low income groups and for people in need. Revive, FRC's store in Liverpool city centre, sells a range of low cost, high quality furniture, both new and refurbished, directly to the public. However, since its opening in 1998, Revive's inability to offer credit facilities has both challenged the viability of the store and has prevented it offering the kind of service its customers need. People on low income rarely have the ready cash to purchase furniture or appliances and need to borrow from somewhere. Some come with Social Fund loans, others with money borrowed from family and friends. But many are just unable to find credit and have to go without the fridge or the new beds they need. In desperation, they turn sometimes to the high-cost retail outlets which will always offer them a deal but at a price.

FRC and Revive have endeavoured to identify a way of providing credit facilities for its customers. All the available options have, however, involved high interest rates and terms that would be unfavourable to low income people. To explore possible ways forward, FRC brought a group of people together from Revive, several housing associations, Citizens Advice Bureaux, Liverpool John Moores University and The Co-operative Bank plc. with the aim of imaginatively establishing a credit union. It would have a membership which would be open to everyone associated with FRC including employees, suppliers, supporters, partners and, importantly, customers of the Revive shop. Through this credit union, customers would be able to obtain loans at interest rates one third the level charged by other retailers and catalogues.

However, the group realised that creating a credit union alone would not necessarily be sufficient to ensure Revive customers obtained the sort of credit they needed. Throughout Britain, hundreds of small credit unions have been established, many of which have failed to offer the kind of service that attracts large numbers of people (Jones 1999). If it were to succeed, a FRC credit union would have to offer its members, including Revive customers, the kind of accessible credit facilities they want, need and value.

This research study arose out of a need to know more about the sort of credit facilities people on low incomes want, need and value. In order to build a successful credit union, it was important to know not only more about how people on low incomes in Liverpool currently access credit but also about the factors that influence their choice and decision making. It was this concern that gave rise to this research study being commissioned by The Co-operative Bank.

2.2 Research Aims and Hypothesis

The research project aimed to investigate how people on low incomes in Liverpool access and use credit. It sought to do this primarily to inform the development of a FRC Credit Union but also to acquire further knowledge about borrowing on a low income in general and to influence decision makers and providers of credit services.

Specifically, the research project addressed the following questions:-

- how, where and why do people on low incomes access credit?
- which factors do people take into account when choosing to borrow, in particular to purchase larger household items?
- what are the characteristics and methods of different forms of credit granting and what impact do these have on the borrower?

The hypothesis of the research was that, even though the interest rates on credit obtained by people on low income is expensive and often extortionate, the choice of which credit facility to use is not made on the basis of cost alone. Accessibility, availability, location, convenience, custom, culture, and the way in which a particular form of credit operates, may be more important factors in the choice of credit than its cost. Of course, in many circumstances, choice is so circumscribed that the borrower seems to have no real choice at all. Yet, in all cases, even in the decision to hand over a benefit book to an illegal money lender, a certain choice still remains. In relation to the Revive store, the hypothesis maintained that any proposed credit union would have to take into account the factors that actually influenced people's choice if it were to develop an effective credit service.

2.3 Research Methods

59 people on low incomes participated in the research project, 30 through a personal, structured interview conducted with a member of the research team and 29 as members of five focus groups held throughout Liverpool. In addition, a preliminary focus group of 12 professionals was organised in order to set the direction of the project. Identified participants were contacted personally through the CAB, Revive, Maritime Housing Association and Liverpool's Credit Union Development Unit. Each participant was sent a letter containing a brief outline of the purpose of the research, the research method to be used, the identity of the researchers and a commitment to respect the confidentiality of the interviews and focus groups.

The focus groups and interviews included participants who represented a number of social groupings (e.g. lone parents, unemployed, low income employed, sick/disabled, pensioners) and variables (with/without bank accounts, County Court Judgements, CAB clients, credit union members etc.). However, the largest single group of participants were lone parent women, aged 20–35 yrs, dependent on welfare benefits and living in social housing. This probably reflected the fact that households headed by women are more likely to be financially excluded (Kempson, Whyley, Caskey, and Collard 2000). Apart from two of the Revive customers, all participants had current or previous experience of accessing credit on a low income.

FOCUS GROUPS

The initial focus group involved 12 professionals working in the field of credit and debt. They were drawn from Liver Housing Association, Maritime Housing Association, Communities Against Poverty (a campaigning and information

group based in Liverpool), Revive, FRC's city centre retail outlet, Lodge Lane and District Credit Union and Anfield and Norris Green CABx. The aim of the group was to set the direction of the research and identify the topics of enquiry for the subsequent focus groups and for the questionnaire. Professional involvement in the design and implementation of the research was seen as essential in establishing a clear focus for the research and to ensure its regional and national credibility.

The five subsequent focus groups aimed at engaging people who had direct experience of accessing credit on a low income. Through an exploration of participants' personal experiences, key issues and factors influencing the choice of credit were identified. The focus groups were informal and participative. They were recorded in order that, through direct quotations, the voices of participants could be heard in professional financial arenas. The focus groups primarily supplied qualitative data but it was also possible to build up certain statistical data from the questions posed.

The five focus groups were:-

- Norris Green CAB – 5 women and 1 man
- Wavertree CAB – 7 women and 1 man
- Maritime Housing Association Tenants – 5 women and 1 man
- Liverpool Credit Unions – 4 women and 1 man
- Communities Against Poverty – 3 women and 1 man

STRUCTURED INTERVIEWS

Interviews were undertaken with 30 people, all on low incomes and resident in Liverpool. The interview participants were as follows:-

- 17 CAB clients from the Aintree, Garston and Norris Green offices, 4 men, 13 women, 14 in receipt of welfare benefits, 3 in low paid employment, 9 in social housing, 3 in privately rented, accommodation, 5 were owner occupiers, 2 of the men and 11 of the women were directly responsible for children.
- 7 Revive customers, 1 man, 6 women, 5 in receipt of welfare benefits (4 being pensioners), 2 in low paid employment, 3 in social housing, 4 were owner occupiers, 2 women were directly responsible for children.
- 5 Maritime Housing Association tenants, 4 women and 1 man, all in receipt of benefits, 1 man and 3 women directly responsible for children
- 1 university student, in receipt of a student grant, in social housing, young woman, single parent.

The interviews were structured and based on a prepared questionnaire, devised from the initial focus group meeting, aimed at eliciting information and views on the way in which people on low incomes access and use credit facilities.

3 obtaining credit on a low income

The importance of Credit

A central narrative throughout this research has been the importance and necessity of credit in the lives of people on low incomes. Previous research revealed that financially excluded households do not generally prioritise credit as a financial product to which they would like access (Kempson and Whyley, 1999). However, over 90% of participants in this research described how necessary it was for them to obtain credit not only to buy essential items but often to make ends meet. The interviews and focus groups identified how people regularly borrowed to pay bills, to buy clothes and school uniforms, and for birthdays, holidays and Christmas. Sometimes people borrowed out of sheer desperation and had need to find money or take out a loan immediately. Quite often, however, people spoke of regular patterns of borrowing that they were used to and familiar with. They may have regularly taken out, for example, a loan with a home credit collector or continually obtained new items through a mail order catalogue. Some participants even spoke about regularly depositing items of jewellery in the pawnbrokers and using the money obtained in a way similar to revolving credit.

People around here don't deal with banks

The majority of participants generally did not use banks and mainstream credit providers. Of the 30 people interviewed only three had ever taken out a bank loan and only one currently had one. People had either tried and had been turned down for a loan or, more often, they had not even applied as they assumed a poor credit rating and a negative outcome. *"The majority of people around here don't deal with banks, they are not for us"* (middle-aged man, Norris Green focus group). Research undertaken by the Personal Finance Research Centre at Bristol University has stressed that it is important not to see the financially excluded as one homogenous group (Kempson E., Whyley C., Caskey J. and Collard S., 2000). There is often a fair degree of movement in and out of financial exclusion. This was the case with some of the participants in this research. A number of people, particularly in the focus groups, had had bank loans and credit cards in the past but, due to redundancy or ill health, no longer found these sources of credit accessible. Others, however, had lived on a low income, and within a predominantly cash economy, all of their lives. They had grown up on housing estates around Liverpool that have faced financial exclusion for many years and where the majority of residents have never been an attractive market for mainstream financial service providers. These communities are typically made up of people in low wage employment or who are unemployed and on benefits. They represent a geographical concentration of lone parents, those with disabilities and the elderly. These are not the sort of communities that mainstream financial institutions seek to attract within their marketing plans.

Alternative credit providers

For the most part, research participants accessed credit through the services of alternative credit providers, all of which charge high interest rates. They used mail order catalogues, home credit companies, pawnbrokers and buyback stores², cheque cashing centres, and finance facilities at certain retail shops such as Crazy George's. But alternative lenders were not their only option. People also borrowed informally from friends or family; they accessed the Social Fund and a few borrowed from tontines and credit unions. Some used credit and store cards and a few borrowed from banks. There was also evidence of some people using unlicensed money lenders. Of course, not every individual used all these sources of credit. Some people only used catalogues and others only used the Social Fund. However, quite a number of people did use multiple sources of credit. It was not uncommon, for example, for people to use catalogues, home credit, the Social Fund as well as occasional visits to a pawn shop in times of necessity. Quite a few of the credit union members, interestingly, used home credit as well. It was hard to discover if people used different sources of credit for different purposes. There was evidence that people used catalogues, the Social Fund and home credit for essential household items. But home credit, and even the Social Fund, were also used for emergencies, for clothes and for presents for the children. Pawn shops and Buyback stores tended, however, just to be used to obtain ready cash to make ends meet. But, on occasion, so too were credit unions. However, overall, the picture did emerge of people obtaining credit from wherever they could for whatever immediate purpose was at hand.

Managing without credit

There were a small number of exceptions to the regular use of credit facilities. Two Revive customers, for example, both pensioners, claimed they did not borrow and, in fact, were opposed to borrowing per se. In previous research, conducted by the Office of Fair Trading, 29% of those without any form of credit stated that this was because they were opposed to borrowing (OFT 1999d). Several other people in interview stated that they did not use credit but it emerged that they regularly used catalogues and even pawn shops. For them "*credit facilities*" were associated with banks and finance companies, which they did not use, whilst more immediate sources of credit were not readily recognised as such. Buying something for £5 per week from the catalogue was not necessarily perceived to be credit. There was a significant minority of participants who found accessing any sort of credit very difficult. A number of interviewees spoke about being refused credit either because they were not working, or had a poor credit history or because of where they lived, "*If I could (have borrowed from a home credit company) I would have, the Social Fund was my only option, I didn't try other lenders, it's always a big worry, big heavy guys at the door*" (young mother, housing association tenant). But even here, people often still borrowed from family and friends or, like the young woman just quoted, from the Social Fund. A number of participants also turned to unregulated money lenders. If people could not borrow at all, they found their financial affairs very difficult to manage.

Dependence on alternative lenders

However for others, albeit excluded from mainstream financial institutions, borrowing from alternative lenders was not difficult at all, even though options were limited. Many alternative lenders were not only willing to lend but encouraged people to borrow. "*There is a few things I am in bother with, once you have catalogues, they let you get thousands and thousands of pounds of goods, then there is the Provvy woman, she begged me to take out*

another loan, she told me that she'd be getting her wages cut if I didn't take out a loan", (Norris Green focus group participant). This not only resulted in people struggling to live on a low income with outstanding loans to repay at very high interest rates, but also to a certain dependence on those lenders that would provide credit. *"People need to pay to be able to get another loan. That's why they stay with the Provvy so that they can get another loan. People are reluctant to give up these forms of credit because there are so few options open to them"* (Wavertree CAB debt counsellor).

Borrowing as a regular part of life

For many people, borrowing and paying back was a regular part of life and had been so for a long time. *"Me myself, I obtained credit by the Provvy and the catalogues and just lived from week to week. When he got paid, Friday, I said that's my catalogue money, that's the Provvy fella, with what you had left you got your messages, (i.e. did your shopping), then you had nothing, you had to go and borrow off your mam until you got paid again"* (Credit union focus group participant). In fact, older participants referred to the long history and tradition of borrowing and weekly repayments in Liverpool, *"I can remember, Dad used to give the money to go down and pay Mrs X down the street, she was a money lender, she had a sweet shop and she used to do toffee apples and she used to lend to people and so when me mam got paid on a Thursday, we used to fight to take the money back to the lady because she gave us an apple"* (Credit Union focus group participant). *"When I was a kid what I thought was the insurance man was the loan man, my family lived off the loan man who came to the door every week"* (Credit union focus group participant).

Making rational choices

From the interviews and focus groups, it was above all clear that people did not use alternative credit providers and other sources of credit just because they had no choice in the matter. Certainly, people's choices were limited and often very constrained. But the reasons people chose to borrow from particular lenders were not primarily negative ones (cf. Rowlingson, 1994). Accessibility was perhaps the most important factor influencing choice. *"It's who will not say no to a loan that matters"* (Wavertree focus group member). But in addition, people chose particular ways of borrowing because they responded to their needs and way of life. People did not choose banks, solely because they felt they might be turned down by them, but because banks did not give them the kind of service they wanted and were familiar with. It was clear in interviews and focus groups that people were attracted by credit services that were simple and straightforward, that were easily understood, that offered a quick decision on a loan, whose application procedures were uncomplicated, that offered weekly or regular repayment facilities and were flexible about the occasional missed payment (cf. Kempson, Whyley, Caskey and Collard, 2000). The cost of the loan was not, in itself, a major factor that influenced the way people accessed credit although it was certainly something people thought about particularly when they got into difficulties with repayments.

² Cash Converters is the registered trademark of an international chain of sell and buy back stores. Each Cash Converters store offers a range of financial products and services including cheque cashing facilities, short-term loans and a re-purchase option simply called 'Buyback'

4 major sources of credit

Borrowing on a low income makes life incredibly difficult for many people. Not only is there the constant worry about how money for essential items is going to be found but also the unending and unrelenting pressure of finding the money to repay loans and to cover the inevitable high cost of the credit. In the Wavertree focus group, the example was given of a person who had several loans with one company and who was paying £100 per week out of her benefit to a door to door collector. This not only left her with practically nothing to live on but had kept her constantly reliant on this one company for over ten years. As a member of the group explained, “*She was terrified of stopping her loans because she knew it would be very difficult, if not impossible, to get credit from anywhere else*”. Yet despite such difficulties, people continue to find sources of credit that, in some way or another, seem to suit their borrowing needs. In this section, a range of credit facilities used by people excluded mostly from mainstream credit services is examined in reference to what people had to say about them in the interviews and focus groups. Not everyone uses all these sources of credit and not all use them in the same way. Nor are all of them high cost options within the alternative lending market. There are also options, for example, within the Social Fund and in credit unions. The research did find some overlap in the way participants used credit. For example, people used home credit loans, sometimes for essential items and at other times just to make ends meet, which was similar to credit union loans. The focus of this research, however, was not so much about what people used loans for, but more about what attracted them to particular sources of credit they used.

4.1 Mail Order Catalogues

Typical catalogue item purchased through an agent:- Servis Easiwash washer/dryer, cost price £379 paid over 20 weeks at 18.95 or 38 weeks at £9.97 (interest free credit). If paid over 100 weeks at £4.80 per week, total cost is £480 (APR 28.8%). If paid over 150 weeks at £3.60 per week, the total cost is £540 (APR 29.7%) (Littlewoods catalogue Autumn and Winter 2000 pg 907. In general, catalogue items bought through an agent are more expensive than those bought directly from the company using a personal catalogue such as the Littlewoods Extra catalogue. All catalogue items are generally more expensive than the same items in High Street stores.

Most popular form of credit

Catalogues were the most popular form of credit used by the largest number of people participating in the research. 60% of interviewees used catalogues regularly for the purchase of larger household items, clothes and other goods. The main reason given for the popularity of catalogues was that they can be used to obtain credit relatively easily. Not only are catalogues available locally through family and friends, or by direct postal application, their credit application procedures are straightforward and easy to understand. In the interviews, 67% of people said that

accessibility, convenience and easy repayment plans were the three most important reasons that attracted them to using catalogues.

Accessibility and convenience did not just apply to accessing the credit itself. The doorstep delivery of goods was itself a reason to use catalogues. Most people did not have their own transport and were not able to visit out of town shopping malls. Others found shopping in town for larger items somewhat difficult. As one of the Communities Against Poverty (CAP) focus group members put it, *"I'm disabled and find it difficult to get about. I can try things at home without getting tired"*. People also felt that they could change their mind about items quite easily and return goods usually without charge. Returning faulty goods was generally spoken about in positive terms and most people found the mail order companies relatively helpful.

Weekly contact with the agent

The research indicated a fairly even balance among the group between those who had their own catalogue account and those who used the agency of family members or friends (even though nationally most mail order customers do have their own account). Using an agent meant that the purchaser did not receive an agent's commission, but it did provide the support of having to make a weekly payment to a relative or friend. This encouraged many people to keep up payments and not to get into arrears. As one young unemployed man explained, *"Getting it (the catalogue item) off my mam, you got to pay it like, I wouldn't let her down"*. Negatively, some people spoke of the moral pressure to pay family and friends. *"If you don't pay them (family and friends), they often pay it themselves to the catalogue company. That means there is pressure on you to pay"* (Wavertree Focus Group). The weekly face-to-face contact with the agent was seen sometimes more than just an encouragement to repay, it was seen as valuable in itself. A lone parent in the housing association group reported that *"I get it from my neighbour and go down to see her every week (to pay the catalogue)"*. This weekly contact was important to her and helped to reduce her feelings of social isolation.

The issue of easy repayments featured highly in the focus groups. The weekly or monthly regular payment was something that people could organise, plan for and control. In addition, there was also a feeling expressed that, in general, catalogue companies were fair and did accommodate occasional missed payments. *"When I miss one week, they are alright about missing payments, they are sort of fair, sometimes I pay as much as I can afford"* (Revive female customer).

Social acceptance

A particular issue that came through both interviews and focus groups was the social acceptance of using catalogues as major forms of credit. *"They are seen as legitimate, using them is accepted"* (Wavertree Focus Group). Nearly everyone used catalogues, knew people who used catalogues and were used to them being part and parcel of life on a low income for generations. Importantly people knew people who were on quite good incomes and still used catalogues for convenience of home shopping. The use of catalogues did not come with a stigma attached.

However, both in the interviews and in the groups, there was a recognition of the higher cost of the goods and also, where applicable, of the credit. In general, goods purchased through an agent in a period of less than 40 weeks are interest free. Over that period, they carry interest charges of APR 28.8% and more (cf. Littlewoods catalogue

2000). In general, however, all catalogue goods are more expensive than the same items in the High Street in order to cover the costs of the weekly repayment and agent's commission. Over 50% of people interviewed said that they knew that it was expensive to use a catalogue. *"They only see £35 per week but not how much they have to pay in the long run, interest is too high in the long run, it's a bloody big book – boots, clothes, can get a lot but it all adds up in the end"* (Credit Union focus group). *"You don't have to go to the shop, everything in it looks good, but the prices are all hyped up"* (Wavertree focus group). Even though people knew the high cost of items in catalogues, for the most part, this did not deter them from using them. The true cost of using a catalogue was often lost for people within what was judged to be an affordable weekly payment. The weekly payments in the catalogue made the items appear to be within people's price range. *"I got a couch from the catalogue. It cost about £1000 and I paid about £10 per week. I also got wardrobes. I never ever sat down and worked out how much I paid. I just paid it until she (a neighbour) told me it was finished"* (22 year old woman, housing association tenant). There were some exceptions to this, *"I only use catalogues for essential items, they are expensive and charge a ridiculous rate of interest"* (unemployed, male housing association tenant).

Disadvantages of catalogues

Apart from the cost of the goods, participants identified a number of disadvantages associated with catalogues. The first disadvantage identified by a large number of people was the temptation involved in mail order shopping. The attractiveness of the goods and the experience of just flicking through the catalogues led many people to purchase items they did not need but which made them feel better about themselves. *"When I'm depressed, I just flick through the catalogue and buy things. I know this woman who has got a house full of catalogue goods, they are still in their packets, she bought them cause she was depressed"* (young woman Wavertree group). Inevitably, this sort of temptation led people deeper and deeper into debt.

There was evidence that some people were unable to obtain their own catalogue even though they wanted to do so. They were then forced to purchase goods through an agent which is, in fact, more expensive. Certain catalogues used directly by the purchaser are considerably less expensive than those used through an agent. Evidence in the groups suggested that catalogue companies red-lined certain areas or particular houses dependent on the nature of that area or the past history of a particular house. *"I can't get a catalogue because the house I'm in because of a previous tenant. I've tried catalogue companies but no one will take me on at that address. I'd have used catalogues but couldn't at that address, it was blacklisted, I never had a chance"* (young woman, single parent, housing association tenant). *"I'd never had a catalogue before, because you couldn't get one in Liverpool 8, we moved to Liverpool 7 so that we could get the catalogue"* (participant – credit union group). In the Maritime focus group, people reported that people in the entire block of housing association flats were not able to get a catalogue.

Further disadvantages were associated with various forms of non payment or fraud. People acting as agents were often placed in a difficult positions because of people they knew not making repayments. *"People let me down and, because it is people you know, it's awkward"* (Maritime focus group participant). There were a few cases of people using the names and address of other people to obtain goods. *"I have to laugh at my kids, they found out my number on the catalogue, my daughter owes £900 now, she phoned them up, the catalogue people must have*

known she is only 14, she got herself a coat and shoes, the trainers were £180, but I've got a security code now (credit union group participant).

“I use catalogues the most”

Despite any perceived disadvantages, however, catalogues were a very popular way of obtaining essential items and household goods. *“I use catalogues the most – they are my only option, the payments are easy and are not too high...no, I don't know what the interest charges are”* (young woman, single parent, housing association tenant).

4.2 Family and Friends

Family and friendship networks

Many people on low incomes rely on family and friends to help them out when they need to borrow either to get over a financial hurdle or to purchase an essential item. This was borne out throughout this research. There was considerable evidence of extensive family and friendship networks on which people could depend in time of need. This illustrated the settled nature of some of the neighbourhoods from which the participants were drawn. *“There's always someone in the family who will help, we all pull together, but the last time I was waiting all day to ask my dad for the money, he gave it though in the end”* (young woman, credit union focus group). *“My dad's the bank manager. I don't use banks, use cash, never bothered with a bank account. I borrow off the family or I use the catalogues mostly”* (young woman, lone parent, housing association tenant).

Moral pressure

The attraction of borrowing from family and friends was that it both afforded the possibility of an accessible, generally interest free loan. In many cases, it was one of the few choices left to people if they were unable or did not want to use the services of alternative lenders. However, everything depended on how supportive or accessible an individual's family or friendship networks were. Some participants regularly borrowed from family and spoke of the lack of pressure to repay, *“often you don't ever pay the loan back, there is no pressure to pay back”* (Wavertree group). Others were not so fortunate. They spoke of the moral pressure they were put under by family and friends to repay quickly and the strain borrowing put on relationships. There were others never borrowed from family and friends and related the embarrassment they would feel if they every had to ask. *“I would never go to my own family, they disowned me because I married a Black man”* (middle aged woman, credit union focus group). Those without family and friendship support were often left with little choice, apart from the Social Fund, but to use alternative lenders.

4.3 Home Credit

“Home credit is one of a range of credit services used regularly by consumers in the UK, where the industry serves an estimated 3 million customers. Home credit companies provide small, short-term, unsecured loans. Customers typically borrow between £150-£500 over a period of 6 months or a year. There is a fixed, all-in charge; no hidden surprises in the small print; and a weekly home-collection service arranged at a time that is convenient for the customer” (Provident Financial website).

Some typical home credit loans taken out by clients of Norris Green CAB (some people have multiple loans taken out with different companies):-

	Home Credit Company	Amount Borrowed	Amount to be repaid	Period in weeks	Amount per week	APR
Person A (3 loans)	Provident	200	294	30	£10	308.54%
	J and K Loans	100	136	13	£10	903.13%
	Morses Ltd	150	232.50	31	£7.50	365.13%
Person B (2 loans)	Greenwoods	250	387.50	31	£12.50	365.13%
	Greenwoods	1000	1550	31	£50	365.13%
Person C	Provident	700	1134	54	£21	170.66%
	Provident	400	636	53	£12	164.08%
	Provident	400	636	53	£12	164.08%
Person D	Park Direct	100	130	26	£5	187.22%
Person E	Greenwoods	200	310	31	£10	365.13%

It is common to borrow and pay back an additional third of the amount borrowed in a 13 week period.

An important source of credit

Borrowing from doorstep lending companies, whilst not as common as the use of catalogues, was significant within the group of participants. More than 50% of the CAB clients and 80% of the housing association tenants had used home credit in the past, although only about 30% to 40% continued to use it regularly. The principal reason given for using home credit, by 44% of CAB clients and a large proportion of focus group members, was that loans were both accessible and available. *“The Provvy’s fast cash, reliable and will always say yes”* (young female single parent, interviewee). Moreover, people were attracted to home credit by the convenience of the weekly collection, the no-fuss application procedures, the immediacy of the loan decision and the fact that the companies did not credit score or carry out credit checks.

Small, short-term unsecured loans

The home credit industry is built upon offering small, short-term unsecured loans, primarily to low income groups, which are made and repaid through an agent who calls each week to the customer’s home. There are number of home credit companies active in Liverpool but perhaps the best known are Provident Financial, the market leader, and Milplan Finance Ltd. The personal relationship established between agent and customer is the key factor in the operation of home credit (OLR 2000). Not only is this seen by home credit companies as a critical element within the management of risk but it allows the agent considerable discretion both in the issue of loans and in the negotiation of repayment periods. This means that people, known to the agent, can obtain loans when they need them without complicated application procedures and, if unable to pay in any particular week, can rearrange payments without heavy penalties.

A long history of home credit

Doorstep lending has had a long history in Liverpool and the weekly collector has been a regular part of the life of

low income neighbourhoods for years. Older participants recounted early childhood experiences of the Provvy and of the way agents became part of the family. This everyday familiarity with home credit has been passed on from generation to generation. *“The Provvy has been going for years”*, one Norris Green pensioner related, *“my mother passed it on to me...my mother always said have a Provvy cheque in your purse as there might be a sale on”*. There was wide evidence that, for many people, home credit was still very much an accepted and valued way to borrow and was perceived as offering a good service to people in need.

“Provident would be my first choice for a loan, I’ve never heard any complaints” (Young woman, 22 yrs housing association tenant).

“The Provident is cheaper than the catalogues – it’s a relatively good deal, it’s easy to get, you don’t have to go out in the rain, they are alright that way, they come to you in the car, they only give you £50 or £100 when you start – I have only had £200 at a time, never a big loan” (female Revive customer, late 30s, 3 children, in receipt of sickness benefit).

“To my mum and sister, there was never another way of getting credit. It’s much easier than going to the bank. The collector has always called around and collected each week where we live” (Maritime group participant).

Collectors as friends

Collectors, many of whom were women, were often regarded as friends. Many came from similar backgrounds and communities to the customers and often worked part-time. Most participants spoke of the collectors in positive terms even though there were the occasional exceptions.

“Collectors can become your friends, they are the one who help you out. I know one a collector, a woman, who goes to the bingo with the people that she collects from. I have heard people say that I can’t go to the bingo, because I’ve not paid her this week, even though she’s not allowed to say anything you know. She’s a family friend. People usually get them (the collectors) through family, neighbours and friends, you know; she’s great, if she can do anything, she’ll do her very best” (young woman, single parent, Wavertree group).

“My loan man has just actually plastered all my living room walls, I paid him £90 for the plastering and then got a loan from him the next week” (young woman, single parent, Wavertree group).

“The Provvy collector goes to the lunch club and the bingo. She’s a real friendly, normal person” (pensioner, CAP group).

Begins with the offer of vouchers

Doorstep lending often begins with the offer of vouchers which can be exchanged in many of the shops in Liverpool. They are repaid weekly in the same way as cash loans. A £100 voucher, for example, typically costs £130 repaid at £5 per week over 26 weeks. It is against the law for credit companies to canvass new customers for loans on the doorstep. However, vouchers count as goods, not cash, and therefore can be offered on the doorstep. Once a customer is signed up through the issue of vouchers, it is then legal for the company to offer cash loans. Many of the people interviewed and in the groups had used and continue to use vouchers. Application for vouchers was very simple, very few questions were asked and most people were offered them without any problem. Significantly, a number of people preferred vouchers to cash as they could be used as a way of saving. Once a voucher was purchased, it had to be spent on goods and could be saved until needed. The main drawback with vouchers was

the embarrassment of using them in the city centre shops and the fact that no change was ever given. *“Don’t you think it’s disgusting the way people in the shops treat you when you have got the vouchers; they look down on you and they don’t give you any change”*. (middle aged, female participant, Wavertree group).

Some real advantages but disadvantages too

It was clear from participants that users of home credit did appreciate its accessibility, convenience and reliability. For those who were, for whatever reason, marginalised from mainstream financial services, home credit offered a way of accessing loans easily and immediately. Application is straightforward and relatively few questions are asked, the weekly collected repayments are convenient and the agent is often understanding if occasional repayments cannot be made. The main disadvantages of home credit were:-

- the high cost of home credit
- the temptation and emotional pressure to borrow
- being trapped in a cycle of indebtedness

COST OF HOME CREDIT

“The collector comes to the luncheon club and goes to the bingo. I feel like I am being intimidated to pay” (Pensioner, Communities Against Poverty group).

Cost not taken into account

76% of people interviewed, when asked, regarded home credit as expensive. *“The charges are massive, if I borrow £100, I’ve got to pay £150 back”* (young woman, single parent). Out of the 30 people interviewed, very few people considered the cost of home credit to be reasonable. However, people were not that sure how much home credit actually cost. They were very unfamiliar with APR (Annual Percentage Rate of interest) and, in practice, did not so much focus on the total cost of the credit but more on the amount that had to be repaid weekly. In a real sense, the true cost of the credit was lost in the level of the weekly repayment. In fact, most participants said the cost of the credit was not something that they took into account when seeking a loan. *“I don’t know how much the Provident rates are”*, explained one Revive customer, *“but don’t know how much a loan from a credit union is either”*. Obtaining the loan, often in circumstances of desperate need, was much more important than its cost. *“The cost of credit is not important when money is needed straight away, most people do not understand APR”* (young woman, single parent, using home credit loans to support her through a JMU degree course). If they thought they could manage the weekly repayment, then it was affordable. *“Someone comes to collect, it’s a low weekly payment, the interest is not too high. My first loan was a voucher but the second one was money”* (young woman, single parent, Maritime group). Some participants were so grateful to obtain the loan that they felt whatever they were being charged was acceptable.

Serious hardship caused by debt

Research undertaken by Opinion Leader Research for Provident Financial maintained that *“customer experience demonstrates it (home credit) is an affordable, manageable option”* (OLR 2000). It was certainly true that many people managed to repay their loans. However, this often involved them in considerable hardship. *“Because the*

collector calls, I don't like saying I haven't got it (the repayment), I have to go without other things" (Maritime participant). Many people spoke about going without basic necessities in order to make the payment. This sometimes left them without money for food. *"We just lived from week to week, my family helped by feeding us, we had our tea at my mums, only 2 nights of the week that I cooked and that's how we survived and that's how we survive now"* (credit union group member). Others had certainly got into very serious difficulties with the amount of the debt they had built up. Several had home credit loans with a number of different companies. In this sense, there was no evidence to support the view that people found home credit loans affordable. Many struggled to pay and found that, in order to repay the loans, the weekly payment had to be spread over an extended period. For many people this meant that they were tied to home credit companies for a very long time.

One of the few convenient options

There was clear evidence that many participants were resisting using home credit. Many participants had used home credit but were not doing so any longer. Many more would do the same if they could manage without it, but the reality is that it remains one of the few convenient options that people both understand and often need. A young female single parent, a housing association tenant, expressed the reality of home credit for her, *"My mum uses the Provvy regularly. They are convenient and help you. It's less stress. You start with about £50 but you can borrow more the longer you are with them. There are seven of us, six brothers; my mum used the Provvy all the time bringing us up. It was hard for her. My mum wanted to introduce me to the Provvy but I didn't need to take money off people. It's too expensive, but if I really needed it, I'd go through with it"*.

Some participants were clear they wanted to finish, primarily because the burden of repaying the loans had just become too much. *"I owe him £55 and I finish next week, I'm getting no more loans from him"* (Wavertree Group member).

THE TEMPTATION AND EMOTIONAL PRESSURE TO BORROW

Relationship with the agent

For many of the participants the relationship with the agent was very important. The face-to-face contact not only enabled people to access loans easily and in a manner suited to their needs but also encouraged them to repay regularly. The downside to this, however, was that this relationship was open to manipulation (Rowlingson 1994). Participants spoke of the pressure they often felt to take out additional loans, even though this was against their better judgement or more than they could afford. *"They (the agents) are coming to the door for four or five months"*, explained one of the Wavertree group members, *"then you invite them in for a cup of tea, and you are telling them your life story and they are telling you theirs, and then they suggest you take out another loan – using the life story to give you another loan"*. Another Wavertree participant added, *"The woman (the collector) is too sympathetic and friendly; you don't like saying no to further loans"*. Some times the pressure is even greater. In speaking of the vouchers, one young woman from Norris Green explained, *"they approach you, they shouldn't do that. Normally 10 days before Xmas, they literally hound you; get it now and pay in the middle of the summer, you don't have to pay for 6 months, they knock on the door and make you offers; if you are on benefit you can't refuse them"*. Yet another Norris Green participant said, *"it got to me paying this money every week, when I'd finished the woman begged me to take out another loan. They sent me letter after letter to take out another loan"*.

Agents under pressure to sell loans

Of course, agents are under pressure to build up their loan portfolio and they use the strength of the relationship with the customer to sell additional or top up loans. From the customers' point of view, all of whom are on low incomes and desperate for money, the offer of ready cash or vouchers is very tempting. Stories of agents taking out large amounts of money in front of customers just before Christmas or before childrens' birthdays were common. There was evidence that some of the practices of agents are disadvantageous to customers, particularly in regard to top up loans. "Say you owe £120", a member of the credit union group explained, "*she'll say put in for £700 and I'll take the £120 out of that, you're getting one loan to pay off another loans. The repayments go up but you can't see what you are paying and it seems to go on for ever*". It is through the taking on these additional or top-up loans that people end up with the large debts from which they find it very difficult to escape. As one of the Wavertree group pointed out, "*if you are lone parent with three kids and you need a cooker and there is no other way to get it you are not going to think about interest, you just take the money*".

BECOMING TRAPPED IN A CYCLE OF NEVER ENDING DEBT

Reliance becomes a never ending cycle of debt

Home credit has become a form of credit that many people have grown to rely on. When desperate or in need of an essential item, it is often one of the few reliable forms of available credit. The disadvantage, identified by many participants, is that it can lead people into a cycle of indebtedness from which it is very difficult to escape. "*It's too tempting, once you are in the cycle it is difficult to break out, You are encouraged to take out more than you can afford; you take it because you have no option of going anywhere else, but you can't go anywhere else because your money is dead to her (the collector) each week*" (participant, credit union group). Many people end up paying large amounts of their weekly income to the collector who, in turn, continues to make them loans which often are used just to make ends meet.

Reluctance to give up home credit

Yet the opportunity of being able to access loans immediately is not something that people want to give up easily. As one CAB volunteer, a member of the Wavertree group, recounted the case of a client she had met recently, "*this person had several loans with one company, she was paying £100 per week to a door to door collector in Kensington. But she was terrified of stopping all loans. She couldn't get a catalogue because of the address she lived at. She was kept reliant on one company for ten years. She couldn't get credit anywhere else. She was so worried about annoying the collector. He would come around several times a day to ask if she has been to the post office but she feels that this is the only form of credit open to her. She is going to join the credit union and try to reduce debts to company. But she is in so deep in with the collector and the company – such a big hole with them. She is so used to having access to a collector. She cannot imagine not having the loan at Christmas. She is not going to give up the collector*".

Keeping options open

This reliance on the collector was expressed by participants in many different ways. It did not always arise because of the amount of indebtedness, it arose often out of a sense of wanting to keep this option open when so few other

credit opportunities existed. Many people even had a sense of gratitude towards the collector who arranged credit for them when so many other agencies would not. It was common, for example, for the agent to be treated by the customer when a loan was arranged. “*When I got a loan I treated the woman for getting me the loan*”, explained a member of the credit union group, “*I always give her £30 for the £300. I know that they are getting commission but I couldn’t not give her anything*”. Another member of the same group reinforced this dependence on the collector, “*I’ve got a credit union loan but I don’t want to bring the payment down to the Provvy because she (the collector) won’t get so much wages*”. A similar sentiment was expressed in the Norris Green group where one participant, a credit union member, who said she could never consider giving up her home credit collector. It was one option she wanted to keep open.

A valued service that leads to a cycle of debt

From the groups and interviews, it was clear that home credit was seen, on the one hand, as an accessible service that was appreciated and valued by its customers. Yet, on the other, it was regarded equally as a very expensive option that trapped people in a never ending cycle of debt from which it was very difficult to escape. Yet, for people with very few options it remained an important option.

Exclusion from home credit

It is important to note that not everyone interviewed was able to access home credit. People with previous poor payment records or a difficult reputation were excluded by the home credit companies themselves. There was clear evidence too, in the Maritime focus group, that home credit collectors would not visit some of the housing association properties they were regarded to be within a high crime area. It was often these people, excluded from alternative lending market, that were in the most danger of turning to illegal or unlicensed money lenders.

4.4 Social Fund Loans

Social Fund budgeting loans are interest free discretionary loans made by the Benefits Agency and repaid by regular direct deduction from Income Support, Job Seekers Allowance. They are calculated according to fixed formulas dependent on the benefit received, on any outstanding Social Fund debts and on the level of any other continuing financial commitments. They are awarded over a 78 week repayment period.

A single person, with other debts or continuing financial commitments (excluding housing costs) over £7.83 per week, could be awarded a maximum loan of £206 repaid over 78 weeks. If the other financial commitments were less than £7.83, a loan of £413 could be made. If the person had no other debts or financial commitments, a loan of £620 over 78 weeks could be made.

A lone parent with two children under 16, with other debts or continuing financial commitments (excluding housing costs) over £7.83 per week, could be awarded £514 over 78 weeks. If the other financial commitments were less than £7.83, a loan of the maximum amount of £1000 could be made.

Interest free and deducted directly from benefits

The majority of participants had experience of using budgetary loans from the Social Fund (discussions tended to focus on budgetary rather than crisis loans, even though participants had also some experience of the latter).

Among the interviewees, 80% of the housing association tenants and about 50% of the CAB clients said they used budgetary loans regularly. Overall, Social Fund loans were valued and appreciated as important sources of credit. Primarily, people were attracted to Social Fund loans because they were interest free, because repayments were deducted directly from benefits and, some cases, because there was no other option open to them. 69% of the CAB clients interviewed stressed that the interest free loan attracted them the most. *"You don't feel it going out of your money"* (Credit Union group member). *"You just get on with what you are getting each week, even though it's less"* (Maritime group member). *"I've only had a Social Fund loan apart from borrowing off my family. I have been unemployed for 4 years and basically the Social Fund is the only loan I could get. It was the only option I had. I got £550 when I moved into my new flat. But paying it back makes life harder. I got a suite from a friend for £40"* (young single man, housing association tenant). Social Fund loans tended to be used for items of high priority. A number of the Revive customers, for example, were using Social Fund loans for essential items such as beds and cookers. There was some evidence, however, that people did use Social Fund loans for purposes other than buying essential items and, indeed, there was some creativity expressed in the use of Social Fund loans. *"It's very useful. It got me out of debt"* (Wavertree focus group).

Administratively people spoke in positive terms *"you know where you are with them, they always write you a letter, it's deducted from benefits, then you get on with what you are getting each week"* (Maritime group participant).

Criticisms

Participants did have a number of criticisms of the Social Fund. Mainly these concerned the amount they were awarded and the level of repayments. *"They're useless. If you ask the DSS for £600, they will probably offer you £300, providing you do not owe them anything beforehand"* (JMU student, single parent). In fact, most people reported that they were awarded less than they had requested. This left them often having to buy a cheaper item or borrowing the shortfall from another source (in some cases from the home credit collector). There was also some evidence that people, knowing the amount would be reduced, inflated the amount they asked for in the first place. The uncertainty around obtaining a loan from the Social Fund was seen to be a major disadvantage. People could not really be sure they could get what they needed or anything at all. *"They can say no"*. Participants were conscious of the fact that the Social Fund is cash limited and that it was better to apply at certain times of the year depending on the local budget. In some cases people preferred the certainty of home credit than the uncertainty of the Social Fund.

What was evident in the groups was that, even though participants valued the opportunity to obtain an interest-free loan, they felt they had no real control over the amount they would be awarded nor any real choice over the level of repayment. *"They give you the amount you have to pay back"* (Norris Green group participant). In general people, were not clear about how decisions were made and how the amount of the loan and the level of repayments were arrived at. People had little knowledge of the procedures and did not consider that they were involved in decision making processes. They felt that there was a certain lack of flexibility in regard to the administration of the loans, particularly if the loan had to be rescheduled. However some people seemed to be able to negotiate levels of repayment more successfully, *"you've got to agree to the repayment level but you can get it changed; they will negotiate the level of repayment"* (CAP group).

There was strong criticism of the level of repayments. When repayments were set at a high rate, people struggled

to make ends meet. *“It takes a big chunk out of your benefits; it’s difficult to manage on what you have got left”* (CAP group participant). *“I like the Social Fund, but at one time they used to give you grants. It’s hard to manage on less money”* (Norris Green group). There was a perception, with the reduction of benefit, that they were being asked to live on an income below that normally regarded as the acceptable minimum. This left people with real difficulties in managing day-to-day essential expenditure. But this did not stop people using the Social Fund as a major source of credit. *“Now I will not use any other credit, I only will use the Social Fund, even though it difficult to live on lower money”* (Maritime focus group).

Creative approaches to applications

People may not have known exactly how the system worked or felt excluded from the decision making procedures. They did realise, however, that a lot depended on what they said and the way in which they handled the interview. They felt that decisions were often erratic and that some people seemed to be awarded loans in ways denied to others. This resulted sometimes in creative approaches to applying for loans.

“You’ve got to know the system or they take advantage. If you put down that you have no debts, you pay more back. I got £300 and said I had no debts. I had to pay £18 a week but my friend got £500 and only £6 a week because she put a load of debts down. I phoned up the Social and said I didn’t want that loan, waited 2 months, put down all kinds and got it for £4 a week. I’d have had to live below the basic poverty line – £18 less than poverty line. That’s why I decided to do that” (Credit Union group member). *“I went up to tell them I lost my money, but I didn’t, I was desperate so I told a white lie. They told me they would loan me £34, do you agree or don’t you, I say “oh yeah”, but they didn’t take that off me until the end of the year when the other one was finished”* (Maritime group participant).

It was particularly noted in the Wavertree group that one important advantage of the Social Fund noted was that there were no credit checks and no enquiries into past credit history.

4.5 Pawn Brokers and Buyback Stores

Pledge an item of jewellery against a £200 loan at Miltons, St John’s Centre, Liverpool, and reclaim it for £220 eight weeks later (APR 85.80%)

“A CAB in Merseyside reported the case of a client who received £45 by providing security of a television/video recorder that he had purchased for £500 twelve months previously. The item was recoverable by him repaying £56.25 within 28 days. This is equivalent to an APR of 1719%. Due to confusion over the date on the contract the item was sold before the client could recover it. The sale price was £120” (NACAB 2001).

Pawn Brokers

At a pawn brokers, people pledge an article, usually an item of jewellery, for a set period of six or seven months, against a cash loan. The amount of the loan is decided on the condition and the value of the article and on the amount requested by the customer. A loan of a third to a half of the value of the item is usually granted but this can be less if a lower amount is requested by the customer. The person is quoted the amount that it will cost to redeem the item at the end of the six or seven month period, typically an interest rate 5% per month is charged

(APR 69.00% for 6 months; APR 67.27% for 7 months). Articles can be redeemed at any time during the loan period at no penalty. Alternatively, if the customer wishes, the pledge period can be extended for a further six months on payment of the interest due. This period can be renewed indefinitely. It is also possible to reduce the amount of the loan by paying a sum off the capital in addition to the interest. In this case, a new agreement is entered into.

Buyback stores

Cash Converters are a nationwide network of stores where people are able to sell and buy items for cash. In addition, Cash Converters offer a range of financial services including cheque cashing facilities, short-term loans, pawn broking and a re-purchase option called 'Buyback'. Buyback is unlike a pawn broking pledge against a loan insofar as there is no credit agreement. In a Buyback transaction, an item is bought by the shop which, however, agrees to retain it for 28 days so that it can be bought back by the customer. There are no set interest charges, the amount paid for the item and the resale value are determined by the shop itself. It is possible to retain the option of buying back the article for another 28 days by paying the difference between the sale and buyback price.

A popular source of credit

Fewer participants used pawn shops and buyback stores than used catalogues and home credit. Nevertheless, a significant number did make regular use of them and there is local evidence that the popularity of both pawn shops and buyback stores is growing in Liverpool. *"It's at your Uncle's"* is a phrase that is resurfacing in Liverpoolian households. Participants were attracted to pawn shops and buyback stores primarily because they were a ready source of instant cash, particularly in times of need, and because they received an immediate decision on the request. *"I use them a lot, I've got five items in there now and I've got seven months to get them back. They have got this thing going at the moment where you can go down each week and you can pay as much as you like off the loan, and then you can say pay the interest and back it up for another seven months"* (Maritime housing association group, young woman). Participants found that, in general the staff were friendly and accessible, the transactions were straightforward and simple to understand and there were no complicated forms to fill in. It was seen as a good option for a short-term loan.

"I've pawned all my jewellery, I've got 15 pawn tickets. I'd rather they stayed in the pawn shop, they are safe there. I pay the interest monthly or pay off the item weekly. They charge 6% interest per month. Cash converters are quite good. I put my tele in there, got £20 for the tele, a kid's tele, portable, and paid back £25 a month later. what I like about them is that they are there when I need it" (young woman interviewee, single parent).

Disadvantages

With both pawn shops and buy back schemes, the disadvantages identified by participants were, mainly, the amount allowed on the loan or sale and the danger of losing jewellery or items if they were not redeemed. Interestingly, in the case of pawn shops very few people mentioned the cost of the credit, nor, in the case of buyback stores, the amount charged to buy back the item. The only group to mention the cost was the Wavertree group in which there were people who had had considerable contact with the CAB and were very conscious the level of personal debt in the area. *"Took quite expensive stuff and got buttons for it"*. *"Cash converters are a rip off. I put in a pager, I asked for £15 but was bargained down to £10. I hadn't got long to get it out, I think it was about*

8 days or 2 weeks. I lost it". "You have got to get it out in a month, it can result in people losing things that they have paid a lot for and never get it out again, they lose it. I put in a hi fi and got £80 for it, a month later I got it back for £105. £80 was only fifth of the worth of it" (young unemployed man housing association tenant). "It was handy, when I had gold jewellery, I used to use them often, but I lost it all in the end" (Credit Union group participant). "I know they send reminders, but I moved. They would have sent the reminder to my old address. When I went round to pick it up, they said, sorry love, it's sold" (Credit Union group participant). If a pledge is not redeemed in a pawn shop it is sold to cover the cost of the original loan and any outstanding interest, the remainder is due to the customer who is normally informed of the amount due by letter. Buy back stores operate differently; if people fail to buy back their item, they lose it altogether. The loss of valuable items was noted as a continual disadvantage of such schemes.

There was some evidence in the groups that a minority of participants found both pawn shops and buyback stores to be habit forming. As a ready source of cash, they were very convenient in getting over periods of financial hardship.

4.6 The Tonnie

A traditional local self-help initiative

A tontine, or tonnie, is a savings club usually organised among a group of relatives and/or friends. Tontines vary in the way they operate. People can save together and take turns in rotation to have access to the money saved. Alternatively, people save together for special events such as Christmas, holidays or First Communion. The number of people in a tontine varies also but typically it is relatively small, maybe just a dozen or so people. The money is collected by the organiser, who is trusted by the members to bank and look after the collective savings. The organiser usually receives a small benefit for running the tontine – traditionally, this was the interest on the savings but, as interest received is nowadays so little, this may be a week's collection money or, in tontines that operate on a rotation basis, the right to be the first to access the collected savings.

The tonnie is still relatively common in Liverpool and many of the group participants were in one, or had been in one in the past. "I love the tonnie – there are about two streets in ours – we save for Christmas and holidays. You can get money in advance as well too" (CAP group member). This comment refers to the fact that in a number of tontines it is possible to borrow from the common pool of savings in advance of the later payout. This is very informal, unlicensed but relatively common. In one group it was reported that the cashier in the local post office was running a tontine!

"I used to run the tontine. There are different types of tontines, ones for Christmas are quite common, there are ones where you can ask for a loan from a tontine, but if they do borrow, the condition is that they pay back before Christmas. If someone borrows and doesn't pay back, others have to wait for their money. My friend was in one and she had to wait two months because someone didn't pay back" (middle aged woman, Wavertree group).

Borrowing from the Tonnie

People were attracted to tontines primarily because they were operated by people they knew, because they were very accessible and because they knew they could borrow if they needed to do so. There was evidence that sometimes interest had to be paid with the loan repayment. "You can borrow in ours, it's £15 on £100. It's supposed to be a savings club but they let you borrow from it. I like the tontine, members are all family and friends,

you never let your family down, we all put a fiver in (Norris Green group). Tontines are examples of informal self-help initiatives but they do have drawbacks. There is no security on savings and lending is unlicensed. They operate purely on trust and are susceptible to fraud. Some people in the groups also spoke of the strong moral pressure to repay any loan from the tontine. In times of hardship this can be difficult.

4.7 Credit Unions

A credit union is a mutually owned financial co-operative. It provides access to low cost borrowing with interest rates fixed by law at 1% per month on a reducing balance (12.68% APR). There are no hidden costs in a credit union. £100 borrowed in a credit union and repaid weekly at £2.04 over 52 weeks would cost £6.08 in interest charges. £500 borrowed in a credit union and repaid weekly at £10.12 over 52 weeks would cost £30.92 in interest charges.

Membership

Very few of the participants, interviewees or focus groups members (with the exception, of course, of the credit union group) were members of credit unions. Only two people out of the thirty interviewees were members. There were only two credit union members in the Norris Green group and none in the Maritime or CAP groups. Nevertheless, most participants had heard about credit unions and knew of their existence (even though there were still a few exceptions to this – some people had not heard of them at all). *“I have heard about them but no idea what they are. There is one in Lodge Lane but it is for a very limited group of residents”* (young woman, lone parent, Maritime focus group). *“Hell of a lot of people unaware of credit unions, I heard of them at work, but not heard much about them”* (middle aged man, Norris Green focus group). Given the number of credit unions operating in the City of Liverpool, it was perhaps surprising that so few participants were members.

Good way to save and an affordable way to borrow

However, credit unions were regarded by participants quite positively. From what people knew, credit unions seen to be a good way to save and an affordable way to borrow. (There was a general perception that credit unions offered low interest loans). The terms and conditions of credit union loans were seen as responding well to the needs of people on low incomes; particularly mentioned were the local nature of the service and the fact that loans could be repaid in regular weekly instalments. Some people saw the linking of saving to borrowing to be an advantage insofar as it enabled them to build up wealth of their own, something they had never been able to do before. Some others, however, were of the opposite view, considering that the obligation to save to be an additional financial burden. No credit checks was seen as an important advantage. *“The fact that there are no credit checks is a big advantage too”* (CAP focus group). Those participants who were members of credit unions were certainly very positive about their involvement. *“I’m a member, you are a member too, they are very friendly people, they help you out when you are in trouble, they are approachable. It was the low interest rate that attracted me. when it first started it used to be a little room off the church, but now it has grown and grown”* (Norris Green focus group participant). Other people who were not members did consider that credit unions may be potentially beneficial, *“just because of the (financial) mess everyone is in, credit unions look about the best way forward. Maybe we can gain some control over our financial affairs”* (Maritime focus group).

Drawbacks

Albeit that participants were open to credit union membership, they were clear about what had not attracted them, or motivated them, to join credit unions in the past. The key factors here were:

- **access** – access to credit unions was seen as a major problem. Some people were not sure where credit unions were located or were unable to find them. They considered credit union opening times to be very limited. The JMU student who participated in the research *“found it very difficult to join the credit union”*. Not only was it difficult for her to find the credit union open, when she did so, she found the joining conditions difficult to comply with. This was replicated by a participant in Norris Green, *“you’ve got to have a member speak for you, that’s the problem, I don’t know anyone in credit union”*.
- **no instant credit** – in most small credit unions in Britain, new members must save for about three months before they can obtain a loan. This custom and practice has grown up in order to enable new members establish a savings record in the credit union and build up personal credit worthiness. This was perceived as a difficulty by many people, particularly when they were in desperate need of money. *“But if you do need money, you cannot afford to save for 12 or 13 weeks, you need to borrow there and then. In a credit union you have got to have money in already to borrow”* (Norris Green participant).
- **preferentiality** – there was a strong perception that credit unions served a preferential group of people and were not open to everyone. *“Now I got a loan the other week, on a Saturday. She said come back in an hour and you’ll have it”*, a Norris Green participant related to the group. *“But your face fits, mam, you know what I mean”*, replied her daughter, *“Yes, I’ve been in it since it opened, I have some money in it and I can get a loan because I am known. But other people couldn’t”*.
- **image** – a considerable demotivator was the persistent image of credit unions as poor persons’ banks. *“People always felt embarrassed about going into a credit union, it was twinned straight away with loan sharks. Only poor people go to loan sharks and only poor people go to credit unions. Our credit union used to be down the side of the church, it looked like you were sneaking in somewhere. But now we are in a shop, it is much better”* (Wavertree focus group). *“If one opened in our street, I’d be a bit worried about going in case people thought I was skint. I’d worry about people knowing your business”* (Wavertree focus group). *“Credit unions are not well known and not readily available, there’s not really a feel good factor to credit unions, there’s a sort of stigma attached to them”* (CAP focus group).
- **level of service** – there was a perception that credit unions only offered a very limited service. This related particularly to access to savings, to opening times and to customer care. For some people, the fact that savings were inaccessible whilst borrowing was a difficulty. *“But you can’t access your own cash – that put me off, it’s difficult to get hold of your own money”* (CAP focus group). This referred also to the perceived extended waiting times to make withdrawals. *“You can’t get your own money immediately”* (Norris Green focus group). Opening times were a common problem and, undoubtedly, some people would have preferred the credit union to offer a door-to-door collection service in the same way as home credit companies. Some participants were also worried about the quality of the reception they might receive from volunteers. *“They (credit union volunteers) can get as nasty as any bank”* (CAP group). *“Credit unions are not very imaginative, people want the same service they get elsewhere”* (CAP focus group). The lack of paid staff in credit unions was noted as a contributory factor to the kind of service offered.

- **confidentiality** – the fact that credit unions were run by local volunteers did deter some people from using them. *“I wouldn’t consider going in and asking for a loan, I wouldn’t want them to know my business”* (Norris Green focus group). *“I have known the priest to knock on the door and ask people about their credit union loan, also this girl went into the shop and the girl from the credit union was there and she asked her about her loan, she felt embarrassed”* (Norris Green focus group).

4.8 Unlicensed Money Lenders

“There was one on Granby, if you borrowed £50, you paid back £75 the next week, if you borrowed a £100, you paid back £150 the next week” (Credit union focus group participant).

The last resort

Unlicensed money lenders, loan sharks, were seen as the last resort by anyone who used them and, indeed, very few people participating in the research admitted to using them at all. But, nevertheless, they were seen to offer a service to people in desperate need and who had no other option. *“When you’ve exhausted all other avenues, at least nobody is ever turned down. It is so easy, there are two in my street alone, it’s the last resort, you are never refused”* (young woman, single parent, Wavertree focus group). *“My daughter was in dire need, it was easy access, she borrowed £50 and paid back £75 the next week, when you are desperate you don’t care about what you have to pay, you don’t think at the time, you don’t think about that”* (Credit union focus group member). For the most part, unlicensed money lenders offered people on low incomes the opportunity to borrow a lump sum to be paid back with considerable interest within a short period of time.

A complex reality

The reality of unlicensed money lending was more complex than might have first been imagined. Money lenders were not always the stereotypical hard man whom everyone feared. Often, according to participants, they were local women who lent small amounts to be paid back in full with interest the following week or fortnight. It was common practice for such lenders to take the benefit books of borrowers as security to ensure loans were repaid. *“We have a woman in our post office who does that, she has seven books to make sure she gets the money, she goes with them to the post office to collect”* (credit union group member). For some participant, such informal lending appeared an acceptable form of accessible and easy credit and was useful in getting over financial humps. It was only when the lending became more aggressive was it seen as a problem. In fact, in one group, one of the women admitted to having been an unlicensed lender herself albeit an unsuccessful one, *“I used to be a money lender and I didn’t get my money back. I had a car accident and I got £2,400 and I did not know what to do with the money so I began to lend money to friends. So I was going every week and knocked at the door and they were never in. I used to charge £20 interest on £100 over 3 months. I got some back but I used all my petrol going to get the money”* (Maritime group participant).

Aggression and intimidation

There was clear evidence, however, of aggression and intimidation linked to unlicensed money lending (Kempson and Whyley 1999). *“I’ve not had very good experiences of loan sharks. My ex-boyfriend got a hiding from them.”*

We've got a few around here. He owed £20 and I had to give £30 to get them off his back" (Maritime focus group participant). *"They keep order books, I've actually seen it, on pay day, I've seen terrible things, violence, it's extortion, we are talking about people who are not in a business but who take child benefit books, but people are desperate, aren't they"* (Norris Green group participant). There was also some evidence of longer term borrowing from unlicensed lenders. In the Maritime group the story was told of a friend of one of the participants who borrowed from a loan shark to buy a car; *"she was paying for this car for years, she should have had a Rolls Royce for it, the car was old and she was still paying after the car was gone. It was pressure, bad pressure, it went on and on"*.

One participant in the Wavertree group summed up the level of pressure to repay many unlicensed lenders; *"you have got to pay back, straightaway, it's high interest but they might come and break your arms"*.

4.9 Retail Shops

A fridge freezer was bought at Crazy George's in Halton, Merseyside. The appliance cost £351.11 cash, to which a credit charge of £154.33 (29.9% APR) was added, also service cover insurance at £273.00 and damage liability cover of £78. The total cost of the fridge freezer was £856.44. The customer had to pay 156 instalments of £5.49 per week (taken from client's record, Norris Green CAB).

Crazy George's

The retail shop most referred to in the focus groups was Crazy George's. This is an attractive high street furniture retail outlet in Liverpool which sells directly to low income customers. A number of participants had purchased goods from the shop even though there was a marked reluctance by most to use its services. Crazy George's was known to 100% of participants as an incredibly high cost shop. It sells goods based on a system of weekly *"affordable"* repayments which is often the only option for people without the ready cash to purchase larger items.

No credit checks and no stigma

Participants were motivated and encouraged people to use Crazy George's mainly because it was accessible and offered an easy payment option to obtaining major household items. Most people were attracted by the premises themselves and the fact that the store was perceived to stock good quality goods. The large notice in the window, *"NO CREDIT CHECKS"*, stressed to many participants that, by going into the shop, they would not in any way be excluded. *"There's no vetting, no credit checks, they don't make you feel different or stigmatised"* (Norris Green focus group). *"It's easy access so that you can better your life, you only need five people to give as references and you get your stuff"* (Credit union group participant). *"You get your goods there and then, no credit checks, they just ask you for five people you know, there are not guarantors, just people who know you"* (Maritime group participant). To obtain credit in Crazy George's, customers only need to give the shop the names, addresses and telephone numbers of five people, either family members or friends, who verify that they know the customer and where he or she lives. These contacts have no legal responsibility. Crazy George's does not take into account the credit history of the customer at all.

Cost of credit

The amount charged for any item is based on its cost price (always much higher than its cost at any regular High St. store, but nobody pays cash for goods in Crazy George's!), the interest charged plus service cover and damage liability insurances. Theoretically, these two insurances are optional but, in practice, participants stressed that they are always taken out by customers. *"Crazy George's, 95% of customers take out the service cover option – service cover and damage liability – it adds to the cost"* (Wavertree group). Crazy George's shop assistants make sure that customers are always convinced that these insurances are in their interests. The vast majority of Crazy George's customers do not have household insurance and so the damage liability insurance which covers fire and theft is relatively easy for them to sell. Service cover on some items may be a less obvious investment but is usually accepted as part of a package deal. These insurances take the usual £3.49 weekly payment for a fridge freeze to well over £5 over a 156 week period.

Rigorous debt recovery

Crazy George's has a rigorous debt recovery policy. If a weekly payment is missed, usually on a Saturday, customers receive a telephone call the following Monday. If the first payment is missed, the goods are recovered immediately the next week. Customers are also charged a £2 penalty fee for a missed payment (even if only missed by one day) and this fee is incurred each time a payment is missed. If the shop has no response to the call, customers receive a personal visit from the finance officer and receive a series of three reminder letters. If there is no response to the visit or letters, goods are repossessed without any questions or further delay. If the customer has paid one third of the amount due, Crazy George's should obtain a court order to repossess the item. In practice, customers are usually unaware of this and tend to lose their goods anyway. Stories of people having items repossessed by Crazy George's abounded in the groups. *"If you miss two weeks, you get a visit....then she missed the next 3 weeks, and as she was 5 weeks behind they repossessed the article. She just let them in because she hadn't paid for 5 weeks. She'd had it for four and a half months, she didn't pay because her fella left her"*.

Disadvantages

In the interviews and groups, most participants felt that the disadvantages strongly outweighed the advantages of shopping at Crazy George's. *"There's the pressure of people knowing your business, the five people whose names you give in"* (Wavertree focus group). *"The goods never feel your own, I bought bunk beds, they are about £200 in the shops, I paid about £700 for them. If you miss a payment, there is a double payment, charges on paying late"* (Maritime focus group). Some people also spoke of feeling harassed, *"if you don't pay, they hound the references to get at you, they send the heavies out if you don't pay to repossess the item, they send them out at 9.00 at night in the van knocking at your door"* (Norris Green focus group). Indeed, 100% of interviewees agreed that shops like Crazy George's do not offer a good service to low income people. Yet still some people still used them, and judging from the fact that the Liverpool store is the busiest and most profitable Crazy George's outlet in the country, so do many others.

Some people spoke of their refusal to pay Crazy George's in the end. *"I paid £800 for the washing machine and fridge and they still wanted another £400. I told them you can take me to Court if you want but they didn't"* (credit union group member). In fact, there was evidence to suggest that Crazy George's does not pursue customers

indefinitely. If no contact is made with a customer or no result achieved after 90 days, the account is closed and Crazy George's writes off the loss. It seems to be company policy that it is not worth taking customers to Court for non-payment or in order to repossess an item. The fact is that most people do not know this and entry for repossession is freely given by most customers. As was pointed out in the Maritime group, *"People just don't know their rights"*.

Other retail outlets

There was not a lot of evidence in the focus groups or interviews of people obtaining credit from other retail outlets in Liverpool apart from the few people who had had experience of using store cards in the past. *"You need a credit history to get credit in shops, most people would not score high enough to get the credit"* (CAP group member). Some people spoke about attempting to obtain credit but they were refused. The lack of access to credit was seen, however, to be a real stumbling block to using High St stores in general and to using the Revive shop in particular. The Revive store was not well known by participants, in fact only two of the 17 CAB interviewees had visited the store. However, 30% of the same group of people expressly stated that they would use the store if it provided credit facilities and they could pay for items on a weekly basis. Interestingly, even though those that used Revive spoke very positively about the store, others perceived it as an expensive place to shop. *"They are supposed to be reasonable aren't they"* (CAP group participant). *"Revive is seen as too expensive, the cost is prohibitive"* (Norris Green group participant). There was some evidence to suggest that this assessment was linked to lack of weekly payment facilities and the fact that people had to find the full cost of the item up front. Those who were able to find the money considered the shop to be good value for money. *"It's very reasonable, you can get a Philips washing machine with a dinge (a dent) in for £125, it would cost you £500 at Crazy George's"* (Norris Green group participant).

4.10 Local Shops

In the Wavertree focus group, there was evidence of local shops operating credit facilities for goods within the shop. This was a very local practice and operated just for people the shopkeeper knew well. Often it was a case of buying groceries on credit until the customer got paid or received the next benefit cheque. There was no evidence of shops charging for this credit service. The problem for individuals was that the prices in the local shop were much higher than in the local Netto or Kwik Save, two supermarkets popular in Wavertree. This local practice was confirmed in the credit union focus group, *"The kids used to put things on the tick and the shop used to love me coming in to put things on tick. They were all higher prices there. The problem was it was just too handy, too easy to put things on tick"*.

There was also some unconfirmed evidence, in the Wavertree group, of local shops cashing post-dated cheques. A participant in the Wavertree group claimed that local shops charged 30% of the value of the cheque to cash it. However, this was unverified.

4.11 Cheque Cashing Centres

Personal Cheque Cashing Charges, Miltons, Liverpool

Amount	1-7 days	8-14 days	15-21 days	22-28 days	29 days
£100	£6.50	£6.75	£7.00	£7.25	£7.50
£90	£5.95	£6.17	£6.40	£6.62	£6.85
£80	£5.40	£5.60	£5.80	£6.00	£6.20
£70	£4.85	£5.02	£5.20	£5.37	£5.55
£60	£4.30	£4.45	£4.60	£4.75	£4.90
£50	£3.75	£3.87	£4.00	£4.12	£4.25
£40	£3.20	£3.30	£3.40	£3.50	£3.60
£30	£2.65	£2.72	£2.80	£2.87	£2.95
£20	£2.10	£2.15	£2.20	£2.25	£2.30

Borrowing against the security of a personal cheque

Cheque cashing centres offer credit in the sense that they cash personal cheques which are then held by the company for a period of up to a month before they are cleared through the bank. This is borrowing in advance against the security of the cheque. The above table gives the charges at a popular cheque cashing centre in Liverpool. To cash a cheque for £50, cleared 29 days later, would cost the borrower £4.50. In other cheque cashing centres in Liverpool the charges are higher. Albermarle and Bond, for example, in Liverpool City Centre charge 10% of the value of the cheque for a period of 30/31 days. A person cashing a cheque, therefore, for £50, to be cleared a month later, would leave the shop with £45. This £5 charge on a £50 cheque is common at most cashing centres in Liverpool. Milton's will only cash one cheque per day up to the value of the cheque guarantee card. Other centres, such as Albermarle and Bond, will cash a number of cheques up to a limit of £400, if the borrower has a £50 guarantee card, or £500 if it is a £100 guarantee card. To cash 8 cheques to a value of £400 for one month a Albermarle and Bond's, would therefore cost £40.

Roll-over

Cheque cashing centres also offer the possibility of "roll over". If a customer does not want the company to cash the cheque at the end of the period, he or she has the option of writing another cheque and paying again the interest for another period of a month. So, on £400, if £40 is paid at the end of the month, the cheque will not be cashed for another 30/31 days.

Accessible in emergencies

A number of participants had used cheque cashing services in emergencies and when there was no other option. Of course, this source of credit is dependent on having a current bank account. But for those that do, it is an accessible, immediate and easy form of short term credit. There are no complicated application forms to fill in and

the transaction is simple and straightforward. All that is needed is a cheque book, bank guarantee card and two items of identification (which need only be letters not official documents such as passports or driving licenses).

Popularity

With a few participants, however, it was popular source of credit. *“I use cheque cashing centres a lot. It’s the way I’ve paid my way through university. Usually I borrow £400 by writing eight cheques for £50. At the end of the month, I roll the money over by going back to the shop and writing another eight cheques and paying £40 again. You can roll over each month for as long as you want. Of course you don’t get any more money you are just paying the interest so that they don’t clear the cheque”*, (university student, single parent). There was evidence that some people used a number of different cheque cashing centres, even on the same day, and , by so doing, amassed a much larger loan.

The drawback, for all participants, was expensive commission charged by the company – 10% per month on the full amount of the cheque. For others, however, it was a source of credit denied to them, *“I only ever cashed a cheque at a Cheque Cashers when I was working, I’ve never had a cheque book since”* (young woman, single parent, housing association tenant on benefit).

4.12 Credit and Store Cards

“Everyone deserves the chance to get a credit card. Capital One Classic MasterCard. At Capital One we have a flexible approach, which means we’re more likely to offer you a card - and when we do it will be designed to suit your needs. With an APR of 24.2% for purchases and an annual fee of just £18, the Capital One Classic MasterCard gives you all the flexibility of a credit card while helping you build or strengthen your credit rating”. Capital One promotional literature.

Capital One Classic MasterCard APR rates

Credit Limit (£)	Purchases and Balance Transfers	Cash
1000	24.2% APR	26.1% APR
700	25.2% APR	27.1% APR
500	26.5% APR	28.5% APR
200	34.0% APR	36.2% APR

Difficult to obtain

About a third of the interviewees had experience of using credit and store cards in the past but only about 10% continued to use them. Most people, however, spoke of not being able to obtain either credit or store cards. *“I’m always being asked about credit cards. I was stopped in Lime Street Station and said okay and filled the form in. I’ve applied a few times. But I didn’t get one. I’m not working”* (CAP group participant). The convenience and the attractiveness of instant credit were regarded as key advantages of credit and store cards. Interestingly, however, the status of possessing a card was also mentioned. Having a card in some way helped people feel much more

financially included. However, the majority of those who had used credit and store cards felt very strongly that the disadvantages outweighed any possible advantages. Most of the participants who had used cards had found them to be too tempting and had tended to run up large debts very quickly. *“They are a curse, it’s too easy to run up credit. I’ve got one, I’ve cleared it off a few times but I owe about £1200 at the minute. Out of the £35 I pay a month I think £18 or more of it is interest and then there’s a payment protection fee of £3. My blood’s boiling just looking at the statement”* (Credit union group member). *“After I filled in this form next thing to my delight, I get this store card through the door not knowing that the interest was 30% plus per cent, what I paid off each month was less than the interest”* (Maritime group member).

Cards for low income groups

Participants were not accessing the low interest gold and platinum credit cards available to middle and high income groups. A number spoke about possessing, or having possessed, credit cards such as Capital One Classic Mastercard (see example above) and Providian Visa Classic which are designed for people on low incomes and who cannot obtain credit cards elsewhere. In fact, the companies claim that these cards are marketed to low income groups as a way of assisting them improving their credit score. Depending on status, usually credit limits on these cards are low but purchases and cash withdrawals are charged at a higher rate than other Capital One cards. On a Capital One Classic card, having a £500 credit limit, for example, cash withdrawals are charged at 28.5% APR. Providian Classic is somewhat similar with cash advances charged at 34.3%, based on a credit limit of £250. In addition, both cards have annual fees (Capital One £18, Providian £15) and late, failure to pay and returned cheque charges (Capital One £18, Providian £18). With Capital One, anybody exceeding their credit limit by £1 is charged a going over the limit fee of £18 immediately. On a low income, it is not difficult to be tempted to exceed a low credit limit and to fail to repay on time.

In the groups, there was also evidence that high interest store cards, marketed to low income groups, were also available in Liverpool. These cards could only be used in certain shops in the city but allowed people to obtain goods immediately albeit at high interest rates.

4.13 Banks and Building Societies

Majority of people do not use banks

Banks were regarded by the majority of participants as not offering a service for people on low incomes. 83% of interviewees disagreed, and 66% strongly disagreed, for example, with the statement that banks offer a good service to everyone including people on low incomes. In the focus groups, 88% of the participants disagreed, and 74% strongly disagreed, with the same statement.

70% of interviewees and the majority of people within the focus groups had, or used to have, a current bank account. As mentioned earlier in this study (see section 3 above), a number of participants had moved in and out of financial exclusion at different periods in their lives. A number with current bank accounts had opened them when they were working. *“We had to get one (bank account) when I worked on the dinners, but I don’t use it now”* (Credit union group member). Others had opened basic current accounts which they thought might be useful. Others had never had a current account. *“You need a letter from God to open a bank account”*, said one middle aged participant in the Wavertree group. *“It’s not worth our while to try and open a bank account. It’s not easy sometimes*

for people to get the ID to open an account” ventured a pensioner in the CAP group. “I never had enough money to open a bank account, never had a need” (CAB client, young woman, lone parent). The following interchange between two middle aged participants in the Norris Green group summed up the experience of many, “But the majority of people around here do not deal with banks” stated one man. “They are closing the banks aren’t they” asked one woman. “But it doesn’t affect us, how many here use the bank? I know I don’t. I use the bank for change. I’ve still got a bank account but I don’t use it” he replied.

Current account rather than lending

If 70% of interviewees had a current bank account, now or in the past, only 26% of them had ever had a bank loan and only 3% had one currently. Banks were used mainly to obtain a current account rather than for lending. Those that had taken out bank loans reported different experiences. Some experiences were quite negative, “*When we got married his wage was not enough, we got a loan from the bank, lived week to week on overdraft. Also the family helped by feeding us, we had our tea at my mams. Only 2 nights of the week that I cooked and that’s how we survived and how we survived. But my mam died and I had to cook 7 nights a week. You found that you were managing then you couldn’t and the banks charge you if you go over your overdraft, £20 for a letter, it’s all about poor people getting poorer. If I’d my life over again, I would never go near a bank*” (credit union group member). Others were more positive, “*I had a loan from the bank, they were dead nice about it. I thought they’d turn me down but they didn’t*” (young woman, housing association tenant who had been turned down by Crazy George’s for not having enough references).

Lack of access

Participants appreciated the advantages of borrowing from a bank. Above all, in interview, they identified the credit status given by having a bank loan. However the reality was that participants thought that lending from a bank was inappropriate and inaccessible to people in their circumstances. The perception was that bank loans were hard to access, expensive, had many hidden charges, were only made over the longer term and were only obtainable if the applicant already had a good credit rating. The following comments were common. “*It takes you months before you can see the manager and as soon as he finds out you are not working, he’s not interested*” (Norris Green group participant). “*The bank? no way, you’ve got to be working for the last 2 years, I would never ask the bank for a loan, it’s too high interest*” (single parent, Revive customer).

The common perception was that banks would say no to a loan. In the focus groups, participants were very conscious that the “*banks can choose their clients*” and that they would not choose them. This was identified in the CAP group as the “*not for us factor*”. Significantly, this perception was shot through with assumptions and beliefs about how banks operated. In the focus groups, there was a mistrust of banks and participants spoke about how they felt that they were unfriendly (“*people look down on us in banks*”), lacking in customer service, disinterested in them as people and remote from their day-to-day experience. “*You have to have money to get a bank loan*” (Norris Green group). The culture of banks and banking was not one that the participants related to or were attracted by. Interestingly, this was not true of post offices. 87% of focus group participants thought a universal bank account at the post office was a good idea. Post offices were seen as places that were much more user friendly and accessible to ordinary working class people.

Psychological barriers

These perceptions led to real psychological barriers around using banking services. People did not, and would not, apply for a bank loans because they thought they would be turned down. This assumption was certainly founded on good evidence in most cases. The majority of the participants just would not get a loan from a bank even if they wanted one. Some had even been refused current accounts, *"I've just got a savings account, I was refused current account because of an overdraft debt I had"* (housing association tenant, single parent).

5 factors influencing choices about credit

All focus group participants, without exception, were of the opinion that people on low incomes had little choice when accessing credit. Over 90% of them also agreed that, out of a need to obtain whatever credit was available, people on low incomes did not shop around to obtain the best credit deal they could. Given this context of limited choice, participants still recognised that people on low incomes, including themselves, did make certain, albeit constrained, choices about which sort of credit service to use. In the groups and in interviews, participants demonstrated a variety of preferences, assumptions and beliefs on which they based those choices. Quite a number of people were very positive, for example, about home credit, whereas others were clear that they would never borrow from somebody at the door. Some people used credit unions and thought they were excellent ways to borrow. Others felt they would be stigmatised as a poor person if they joined a credit union.

The most important factor that influenced participants' choice about credit was its accessibility. What mattered most was that they would not be refused and that the lender would, without fuss and unnecessary investigation, agree to the request. Other key influencing factors, identified in order of preference by focus groups participants, were ease and flexibility of repayment (linked to affordability), the speed of the loan decision, the absence of any credit check, familiarity with the service, often as already used by family and friends (*discussed in reference to tradition and culture below*), no questions about financial circumstances, knowledge of the product (including the simplicity and straightforwardness of its terms and conditions), convenience and ease of application. In addition, two additional influencing factors appeared as themes within the focus group discussions but which were not ranked in order of preference by the participants; these were direct face-to-face contact with the lender (the human touch) and the lack of any stigmatisation in the operation of the lender or loan processes.

The most problematic factor to evaluate was the cost of the credit. Participants were, for the most part, unfamiliar with APR and were often unsure of the total actual costs involved in their borrowing. In a context of necessity and few options, the cost of the credit itself was often not directly taken into account. Obtaining the loan was the priority, not how much it cost. Yet, most people were not unaware of the cost of the credit. In fact, many of the research participants, as CAB clients, had come to the CAB with debt problems, precisely exacerbated by high credit costs. They were fully aware that, as people on low incomes, they were being charged much higher rates of interest than the population at large. But what was more important than the cost was the ability to obtain credit in a way that responded both to their social and economic situation and to immediate needs. In practice, the cost of the credit was assessed much more in terms of weekly affordability than overall total cost.

5.1 Cost of Credit

Cost of credit not always important

“Cost of credit is not important when money is needed straight away, most people do not understand APR” (young woman interviewee, lone parent). *“How easy it is to obtain is what matters, not the cost of the credit”* (CAB client, interviewee). *“In a lot of cases, cost is not important at all, people don't understand it”*, said a Norris Green participant, a pensioner, as she took a credit union leaflet out of her bag, *“I wouldn't know what this is”* pointing to the APR figure on the leaflet.

Affordability rather than cost

The role of the cost of the credit in influencing the way people on low incomes access credit was a complex one. Certainly, it was not the primary influencing factor people bore in mind when accessing credit. It was much less important, for example, than accessibility. *“You just want the money, just being able to get it is what counts, who can I go to and who will not say no when then cooker conks out. If you are lone parent with three kids and you need a cooker and there is no other way to get it you are not going to think about interest”* (young woman, lone parent, Wavertree focus group). People tended to think more about affordability rather than the total cost of the credit. The two were not necessarily linked in people's minds. Affordability was judged, not by the overall cost of the credit, but much more by the level of the weekly payment. Of course, it is precisely this that enables alternative lenders to charge high interest rates which are then lost or hidden in a relatively affordable weekly sum. *“It is just a matter of getting credit from whoever will give it, so much a week is what counts; you are not told what the interest rate is, people do not realise what it costs, what matters is what they can get their hands on. People know that they can get credit easily, as long as they keep paying each week, they don't worry about the cost. Cost is not such an important issue”* (Revive customer, interviewee). In order to obtain credit there was some evidence that some participants were even willing to pay higher charges. One Maritime housing association interviewee stated, *“it's a privilege that they give you the money, I'm ready to pay high charges”*. It was this same notion of gratitude for a loan, in a context of being refused by mainstream lenders, that led some home credit customers voluntarily giving their collectors a £20 tip on the arrangement of a £200 loan.

However, it would be incorrect to conclude that cost had no relevance whatsoever. There was ample evidence that many people were aware of the cost of the credit they used when they reflected upon it. Over 50% of interviewees, for example, stated that catalogues were expensive and over 90% of group participants were fully aware of the high cost of home credit. At first sight it may appear that there was a certain contradiction or ambivalence in people's minds about the cost of credit. In the focus groups, for example, when participants were asked directly if the cost of credit was an important factor in accessing loans, the majority of participants in discussion said it was not. But when the same people were asked to tick the factors they considered important when taking out a loan, 72% ticked the “low cost loan” box in a pre-prepared list. The same was true in the interviews when only 13% of participants said they took the cost into account when they accessed credit but 70% ticked the prepared “low cost loan” box when asked which were the important factors to consider when taking out a loan. The point seemed to be that although people appreciated the high cost of credit, it did not, or could not, always influence their action in choosing to borrow from high cost lenders. Other factors such as accessibility and the immediacy of the loan weighed heavier than its cost.

Deeper and deeper into debt

Over time, however, the high cost of credit certainly added additional burdens in people's lives. Loans that should have ended long ago continued for years and people were drawn deeper and deeper into debt. *"Paying over the odds is not too important, when I'm paying a tenner a week, but sometimes it feels though that I have been paying for ever"* (middle aged woman, housing association tenant). But many people did eventually begin to focus more on the cost of what they have borrowed. *"Initially people don't think about the cost of the credit. I think first I need that, I do not think how much interest is this going to cost me. You need a fridge, a cooker, the first priority is to get the fridge, cooker, you don't think how much the interest is. People don't think, until they realise sometime, go what!, is that how much I'm paying"* (Maritime group participant). It is true that a significant number of the CAB participants had come to the CAB because of debt problems and clearly were more conscious of the cost of credit now than they might have been in the past. Many were in deep difficulty because of the high cost of the credit they had obtained from alternative lenders. Some eventually became aware of the charges they had been paying with alternative lenders. *"I always borrowed from the Provvy, but I joined the credit union and then I realised what interest I'd been paying with the Provvy"* (Credit union focus group member).

5.2 Accessibility

Access to a loan was the primary factor influencing the way which people on low incomes obtained loans. Excluded from the mainstream credit service sector, participants were clear that they chose primarily those forms credit that were accessible and available to them. As one member of the CAP focus group put it, *"it's the no other choice factor"*. People use the services of the home credit collector because she calls at the door offering a loan and people know they will not be turned down by her. Again, with catalogues, pawn shops, buyback stores, and even Crazy George's, what counts is that they are all readily accessible sources of credit.

The experience of being refused loans was common among participants. The following were comments made by three separate CAB interviewees, all women, all single parents. *"I was refused at the Argos desk, it was really embarrassing"*; *"This man went into the back and came out and told me I could not have the cooker. it was embarrassing for him, he came out and said no and I can't tell you why; "I was refused after a credit check, I was made to feel like a criminal"*. There were examples of people being turned down by city centre stores, *"I was refused by TJs, very quickly, no reason given"*, Crazy George's and the Social Fund. *"There was no proper explanation given, the Social Fund refused and never said why"*, (Revive customer). Within this context of uncertainty about obtaining loans, those forms of credit that offer ready and uncomplicated access are clearly seen as preferable.

5.3 Ease and Flexibility of Repayment

Ease of repayment was seen as an important influencing factor and was directly linked to the affordability of the loan. What mattered to people was the affordability of the weekly (or monthly) repayment within the context of managing the household budget. This was much more important than the total overall cost of the loan. Of course, affordable weekly payments to cover the cost of high interest loans or credit terms on purchases resulted in participants paying for loans or items over very long extended periods. Ease of repayment, however, did not just refer to the level of the weekly repayment, it referred also to the method and flexibility of repayment. People had to control tightly a limited budget and survive from week to week. In this context, the regular payments to catalogue

companies and home credit collectors were about controlling that budget. The flexibility offered by these companies, in terms of the acceptance of occasional missed payments, was appreciated and valued by participants.

5.4 Immediacy

A quick decision on a loan was a high priority for the majority of participants in interview and in the focus groups. The CAP group, in fact, made the immediacy of the loan its first priority. 75% of CAB clients interviewed said that access to instant credit was very important or essential. *"It's essential to provide for children's needs , clothing like, also necessary when the washing machine broke down"*, (young single parent, housing association tenant). *"It's essential to have instant credit for me. I am a lone parent, I need money for bills, clothes, Christmas, school uniform etc"*, (young woman, JMU student).

The importance of the immediacy of credit was linked to difficulty of having to survive on a low income where the entire income is spoken for each week. People generally did not have savings to fall back on and, particularly in cases of emergency, the speediest form of credit was the most attractive. People often had need to access relatively small amounts of money to meet irregular or unanticipated expenditure.

5.5 No Credit Checks

Sources of credit that did not formally check a person's credit history, nor credit score nor ask questions about financial circumstances before allocating the loan were seen as attractive to a significant number of participants. It was a evident influencing factor in the decision to use home credit, catalogues and Crazy George's. The lack of a credit check, was strongly linked, naturally, to the ability to access the credit. Many people's personal credit histories would not have given them a high credit score, so companies that used other methods to assess credit worthiness were to be preferred.

5.6 Tradition and Culture

Financial exclusion is not a new phenomenon in Liverpool. For generations, communities in Liverpool have had little access to mainstream financial services and have had to make ends meet by obtaining credit from the *"loan man"*, legal or otherwise, the man selling vouchers for shops in town, the tontine, the catalogue, the pawn shop and other forms of alternative credit services. A whole tradition and culture of obtaining credit outside of the mainstream credit system has grown up over a long time. Participants referred to this when they stressed the importance of using a service that was already used by family and friends. The credit union focus group was clearer when it explained that what attracted its members to one form of credit rather than another was, *"Upbringing, people often follow in the footsteps of parents, if mum and dad borrowed from the Provvy, children will do so too, it's part of the culture"*. Participants tended to use those tried and tested forms of credit that had been used by family, neighbours and friends for years. *"All my sisters are in the Provvy, my whole family"* (CAP focus group member). In fact, home credit companies build on this history and tradition by ensuring that they retain contact with customers through their networks of relations and friends.

Tradition and culture had another yet important dimension. Credit services that are seen as traditional and part of the community are much more personally acceptable to people than those that are not. They are regarded as inclusive and non stigmatising. It was interesting to note the differing reactions, for example, to home credit and to

credit unions by many group members. The first, seen undoubtedly as expensive and even extortionate, was regarded as an acceptable source of credit. Nobody in the groups spoke of being personally stigmatised as poor by using home credit. But they did so when speaking of credit unions. There were a number of possible reasons for this. The privacy of home credit certainly helped, so did the fact that home credit collectors were mainly drawn from the same sorts of communities as the borrowers. However, there was evidence to show that credit unions as such had not yet permeated the culture and traditions of working class communities. People spoke about “*sneaking*” into church halls to join the credit union. The impression was given that credit unions, established often by churches and other social welfare organisations, with the aim of serving the poor, were perceived as organisations that stigmatised low incomes borrowers as poor people.

5.7 Knowledge of the Product

In the interviews, 40% of participants said they had little or no knowledge about financial products. However, 56% of CAB clients said they were well informed about the products that they used. There was evidence that participants lacked knowledge and information about wider and more mainstream credit facilities but were relatively well informed about the credit services they used. It is important to make a distinction here. Participants were well informed about the operation and procedures concerning particular sources of credit but, as was noted in section 5.1 above, they were much less well informed about the overall total cost of the credit they accessed. Familiarity with, and knowledge of, particular credit products was therefore an important influencing factor in making choices about credit.

5.8 Simple and Straightforward Terms and Conditions

Participants were attracted by sources of credit that were simple and straightforward to understand and that did not have hidden charges. The irony was that often alternative sources of credit, which appeared to people as simple and straightforward at the outset, became much more complicated as time progressed. The doorstep lender’s loan appeared often, for example, as a straightforward loan to be paid back at so much per week. However, with one top-up loan after another, the original transaction was lost in a fog of complications. People were then very unsure of how much they owed, what they were paying and for how long.

5.9 Convenience

The convenience associated with obtaining the loan was a clear influencing factor. Again, this was very much linked to use of credit facilities that did not present them with geographical or psychological barriers which they had to cope with and cross. The convenience of cashing a cheque to be presented month later to their bank by a Cheque Casher, for example, was preferable to trying to arrange an overdraft at the bank. A loan from a home credit collector, arranged in the borrower’s own home, was preferable to being interviewed by neighbours at the credit union. There were certain groups within the participants for whom convenience was particularly an important issue. These included the elderly, disabled and single parents for whom shopping out of a catalogue was preferable to negotiating the transport into the town centre

5.10 Ease of Application

A key advantage of many alternative forms of credit was identified as the ease of the application procedures. There are often few questions asked and any form to be filled in is simple, usually only requiring a signature. Catalogue companies often do not even have credit agreements at all. This ease of application was perceived as an important motivating factor and, alternatively, more complicated application procedures were regarded negatively. The requirement in most credit unions to save for three months, complete a comprehensive form and be interviewed by a local volunteer, for example, was regarded as something that put people off joining credit unions.

5.11 The Human Touch

Personal face-to-interaction between the lender and borrower was important to many of the participants and it clearly played a part in the way people accessed credit. One focus group member recounted how her friend was overwhelmed with unwanted goods ordered from catalogues not so much because she needed these goods (many were still unopened packets) but because she wanted the regular contact with the catalogue agent. The same stress on personal relationships was evident in regard to credit unions and tontines where the interaction with the volunteers was seen as important element in the process of obtaining a loan. Personal face to face contact was equally an evident competitive advantage of home credit companies and credit unions (Lee and Kelly 2001). Even the illegal money lenders were often known personally to borrowers.

Some people were clearly open to non face-to-face means of obtaining credit, for example in the use of credit and store cards. But, in general, face to face contact was important to most people. Even in regard to Social Fund loans, some successful applicants spoke of the importance of the assistance given by DSS in obtaining the loan. It was harder to see the significance of the personal interaction in regard to pawn shops and buyback stores but, even here, the immediacy and the amount of the loan was often the product of a face-to-face bargaining transaction. Interestingly, in neither the groups nor interviews did anyone refer to accessing loans electronically or over the phone.

5.12 No stigmatisation

"It's the feel good factor that counts and the stigma factor. You want to blend in so that you look no different to anyone else" (CAP focus group). There was evidence in the groups that participants chose those forms of credit with which they felt comfortable and which they felt did not mark them out as different from other people within their community or within society at large. This was clearly a factor in people avoiding using banks and mainstream credit services where the perception was that *"people looked down"* on them. Interestingly home credit, catalogues, the Social Fund and even for some pawn shops and cheque cashers, were not perceived as carrying a stigma, primarily because many in the community used these services as well. Interestingly, for some, credit unions were seen as stigmatising arising from a perception they were more like welfare or charitable organisations established primarily for the poor.

6 recommendations

The research study revealed a world in which large numbers of people on low incomes have to borrow money regularly for essential items and to make ends meet. Mostly excluded from mainstream credit services and faced with a limited range of choices, they turn to money lenders and other alternative sources of credit that can offer them the kind of loans and access to goods that they need. Accustomed to being turned down elsewhere, many people on low incomes readily and even willingly accept credit from alternative lenders. However, for increasing numbers of borrowers, there is a price to be paid – a price not just measured by high, and often extortionate, interest charges and unfavourable credit terms and conditions. It is a price that for many is characterised by being caught, entrapped and diminished in never ending cycles of borrowing and debt repayments. The victims of the alternative credit system are found any day of the week in the waiting rooms of the Norris Green, Garston and Anfield Citizen's Advice Bureaux.

A number of clear messages arising from this study are directed to Government, both national and local, the Financial Services Authority, banks, credit unions and the alternative lenders themselves. These messages are listed under the following headings:-

6.1 Central Government

Government policy makers have developed a range of different strategies aimed at regenerating inner cities and deprived neighbourhoods. At the same as Government funded agencies have endeavoured to involve local people in initiatives aimed at improving their lives, these same people have had regularly to turn to alternative credit providers with often harmful and damaging social and personal consequences.

Access to credit for people on low incomes is not a marginal need in people's lives and lack of access to affordable and reasonable credit causes significant problems. Access to credit, however, has not been fully addressed in recent Government policy development. It did not feature as a part of the development of the Universal Bank. Policy Action Team 14 did refer to the importance of the development of credit unions and suggested reform of the Social Fund to extend loan facilities to those in low paid employment. However more work needs to be undertaken in both these areas.

The messages of this study for Central Government policy makers are that:

- access to credit needs to be recognised as a major issue in their lives of people on low incomes and needs to be more clearly on the Government agenda
- consumer credit legislation needs to be developed that brings about greater truth, transparency and honesty in the way money is lent to low income consumers.

- the Consumer Credit Act 1974 needs reform in order to:
 - tackle the high and extortionate charges made on loans whether these be in the form of interest rates, fees or other additional costs.
 - ensure that borrowers are provided with transparent and easily understood information about the cost, terms and conditions of the loan, before and when concluding an agreement
 - enable Courts to open and relook at credit agreements without the need for an application from a borrower (*who are normally unclear about the Consumer Credit Act and to fail to request a re-examination of credit agreements themselves*) and reset the interest and other charges on a loan.
 - place a requirement on the lender to assess the capacity of the borrower to repay a loan.
 - credit unions existing exemption from compliance with Consumer Credit Act 1974 should be maintained amidst any other changes that are made.
- access to the social fund needs to be increased at the same time as its terms, conditions and procedures are improved in the interests of the borrower. The level of repayments and the repayment period, for example, should be much more flexible and set in consultation with the borrower.
- designers of the Universal Bank need to rethink how the bank could offer or enable people to access credit facilities. The possibility of achieving this through the development of partnership agreements between the bank, post office and credit unions needs to be considered.
- credit unions require strategic centralised financial and technical assistance in order to strengthen them as financial institutions able to offer a professional and efficient service to low income consumers. In order to achieve this, HM Treasury's Credit Union Task Force recommended the creation of a Central Services Organisation. Government support is still needed if this is to be implemented.
- the impact of the alternative lending industry on the lives of low income people needs greater investigation and study.
- the Benefits Agency should make available to claimants the ability to have their credit union loan repayments deducted directly from their benefit (similar to existing deductions for Social Fund and Utility Bills).

6.2 Local Government

Local government gives a high priority to the regeneration of local communities. Within this context, the messages of the study for local government are that:-

- regional and local economic development strategies need to take into account the credit needs and borrowing profile of low income consumers and the impact of the activities of alternative lenders within local communities.
- a lead needs to be taken in developing partnership approaches to ensuring low income consumers have access to affordable credit facilities. Links should be developed between local authorities, social landlords, credit unions, community organisations, banks, CABx, educational institutions and other agencies both to monitor the current borrowing profile of low income consumers and to develop new initiatives in this area.
- the support for credit unions, offered through local authorities, needs to be re-evaluated and assessed in line with the recommendations made in the Local Government Association's Guidance Notes (LGA 2001). Many traditional forms of support have not achieved the institutional reform necessary to enable credit

unions to serve the needs of large numbers of low income consumers. Local authority support needs to focus primarily on offering credit unions the financial and technical assistance to employ skilled staff and improve leadership skills, to establish financial disciplines and effective marketing programmes, and to reorient themselves as full service financial institutions.

6.3 Financial Services Authority

The FSA is the regulator of financial institutions including credit unions and the alternative lending industry. The messages of this study for the FSA are:-

- that more creative solutions to the development of credit unions need to be pursued. In particular, more imaginative interpretations of the common bond, or field of membership of the credit union, need to be developed in order to enable credit unions to reach larger numbers of low income consumers. This may involve, for example, enabling credit unions to have fields of membership comprised of multiple, diversified and overlapping common bonds. A single credit union may include, for example, diverse common bonds based on living or working in particular areas and association with particular organisations and receiving or purchasing certain services.
- that more effective and transparent regulation of the alternative credit industry is required. Particular attention needs to be focused on the marketing techniques and business practices of the industry.

6.4 Banks and other mainstream credit providers

Banks and other mainstream credit providers need to consider what impact they can make in improving access to credit for people on low incomes. It is clear from this research that many families on low incomes do not see banks as a solution to their needs. Banks have not traditionally targeted potential customers in low income communities. Indeed it could be argued why should they. Some banks may take the view that other providers are better equipped to provide finance in these circumstances. It may be a more practical solution if banks were to support other organisations that can provide an effective regulated service to people on low incomes. The messages from this study for banks and other mainstream credit providers are that:-

- They need to accept that they are not the first choice for credit for families on low incomes but that they have a positive role to play.
- The basic accounts introduced by the main banks can help low income families save money on direct debit and standing order payments but they do not offer the relatively small amounts of credit needed.
- To ensure the development of credit products that respond to the need of low income consumers, banks, and other main stream credit providers need to work in partnership with credit unions, social landlords, the Post Office and other agencies. They need to assist in the sustainable projects and initiatives that develop transparent and honest and FSA regulated credit products for people on low incomes.

6.5 Credit Unions

Credit unions are well placed to develop credit products for low income consumers. They are often located in areas of high social disadvantage and, traditionally, have been able to offer their members small loans with flexible terms and conditions, repaid on a weekly or monthly basis. They have also developed a system of linking saving to

borrowing. However, many community based credit unions have remained small (Jones 1999) and struggle to provide an efficient, effective and accessible service to large numbers of low income consumers. Organised primarily by volunteers, they are open mostly for a limited number of hours and find it difficult to offer the accessible and instant service many low income consumers need. Evidence in the study suggested that many low income consumers in Liverpool were not using credit unions. The messages of the study for credit unions are that:-

- if they are going to reach larger numbers of low income consumers, they need to reform themselves and become much more professional, market-orientated financial institutions able to offer quality services to large numbers of people.
- they need to develop new financial disciplines, policies and procedures in order to establish themselves as financially viable cooperative financial institutions.
- they need to offer improved access to credit services. This will involve extended opening times, streamlined credit application procedures including the option of instant credit.
- they need to employ high quality staff with the necessary skills and expertise to develop a cooperative financial institution.
- they need to pay market rates of interest (dividends) on savings to mobilise the savings of members out of which loans are made. This could also include payment of different dividend rates on multiple savings accounts.
- the need to adopt market-oriented strategies to lending. This could involve offering varying interest rates on different loan products.
- they need to seek out appropriate financial and technical assistance from central and local government, housing associations, banks and other credit providers, social businesses, business development organisations and other appropriate agencies. They need to ensure that all financial and technical assistance contributes to institutional reform, effective business planning and the development of viable cooperative businesses with a professional and credible image.
- As from 1st July 2002, accept deposits from local authorities, housing associations and other corporate entities that will enable the credit union to provide instant credit without a prior savings requirement, and to provide a loan guarantee fund to underwrite higher risk loans without risking members savings.
- The adoption of a bill-payment service to enable members to benefit from the ability to budget weekly, spread the cost of paying their utility bills, and enjoy the cheaper cost of payment of utility bills through direct debits rather than Power Key or meters.

6.6 The Alternative Lending Industry

Alternative credit providers are often one of the few credit options for people on low incomes. For people, often in desperate need, they offer immediate and ready access to credit. However, there are victims of this form of high cost borrowing. The messages of the study for the alternative lending industry are:-

- codes of practice for the alternative lending industry should promote honesty and transparency in lending.
- consumers should be given written information, in plain English, about the full cost, terms and conditions of the credit, before and when an agreement is concluded.

- marketing techniques and practices that are disadvantageous to low income groups should be discontinued. Alternative lenders should ensure that there is no emotional pressure put on vulnerable customers to take out credit.
- home credit collectors should be trained to maintain a professional relationship and distance with customers and to ensure that relationships with vulnerable and desperate customers are not subject to manipulation
- home credit collectors should be remunerated in ways that does not relate their income to the repayments of the customer,
- borrowers overall capacity to repay existing and requested loans must be assessed before any loan agreement is entered into.

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