

Where do people in deprived communities access finance?

There is evidence that people with low or no incomes, and those in deprived communities, are more likely to access a range of high cost credit providers when they need access to finance.

Pawnbrokers

- It is estimated that there are around 1800 pawnbrokers in the UK¹, up from around 1300 in 2010 and 800 in 2003, with a total loan book value of around £192 million.²
- Women are most common among pawnbroker customers and 64% of the customers surveyed were women. 19% described themselves as Black or Asian.³
- Most pawnbroker customers did not own their own homes. 48% rented social housing and 22% were rented privately. 20% were owner occupiers.
- 40% of customers were in employment while 60% were not, most commonly because they were unemployed (25%) but also because they were looking after the home of caring for the family (14%), unable to work due to ill-health or disability (14%) or retired (6%).
- 70% of customers had incomes of less than £300 a week which is below the national average income of £407 a week.
- Pawnbroker customers were less likely to have a transactional bank account than the general population (38% compared with 89%) and more likely to have a basic bank account (40% compared with 5%) or a Post Office Card Account (20% compared with 5%).
- Loans from a pawnbroker were typically used for day to day living expenses (51% used the loan for food and groceries and 27% for bills other than rent or

mortgage). They were less commonly used for a special occasion (5%) or socialising (3%).

- Interest is typically charged monthly and ranges from 5%-12% which equates to an APR of between 70% and 200% on a £100 loan over six months.⁴ 88% of customers surveyed were not able to say what the APR was on their loan.

Illegal lenders (loan sharks)

- Average APR for legal doorstep lenders is between 188% and 500%. Assuming that illegal lenders charge three times as much, the APR they charge will be between 566% and 1,500%. People pay back £285 for every £100 loaned.⁵
- People who use illegal lenders tend to be unable to use legal home credit lenders because they are not in their areas, or they have defaulted or reached the limit for home credit lenders, or are too high risk.⁶
- There is a greater tendency for users of illegal lenders to have complex lives as 3 out of 10 have drug, alcohol or mental health problems, although most do not have such issues.⁷
- Illegal lenders are intentionally unclear about the loan terms and often employ arbitrary penalty charges for missed payments and small top up loans to enable payments to be made.⁸
- An estimated 310,000 people borrow from illegal moneylenders, a number which is set to grow in the coming years.⁹

Payday lenders

- The three largest lenders account for 55% of the market by turnover and 57% by loan value.¹⁰
- In 2012 over 12 million short-term cash advance or 'payday' loans were arranged in the UK.¹¹

- 1.2 million people a year are thought to use pay day lenders¹² and the number of such providers is growing. For example The Money Shop has increased from 168 branches in 2006 to 450 in 2011.¹³
- A total of £3.7bn-worth of credit was extended in this way and UK borrowers paid over £900m in interest and charges.¹⁴
- In 2013, the average payday loan amounted to between £265 and £270, and was borrowed over 30 days.¹⁵
- Firms reported that the average cost of borrowing £100 was around £25, but ranged from £14 to £51.¹⁶
- 28 per cent of loans issued in 2011/12 were rolled over at least once, accounting for almost 50 per cent of revenue. Five per cent of loans were rolled over four times or more, accounting for 19 per cent of revenue.¹⁷
- 82% of employees surveyed said that they did not have sufficient money to get to the end of the month and 12% of these said that they had used payday lenders such as Wonga, Money Shop and Quick Quid to help them until they were next paid.¹⁸ A £200 loan at an APR of 4,200% would take three days' wages to pay off.
- 60% of people who borrow through pay day lenders use the loans to pay for bills and other essentials including food, petrol and nappies.¹⁹

Rent to own / pay weekly schemes

- These schemes, offered by retailer Brighthouse for example, enable people to buy goods (commonly white goods and electrical appliances) on credit and repay the loan weekly. This costs the consumer considerably more than it would cost to buy the item outright. For example, a fridge freezer costs £1,074 through the scheme compared with £430 to buy outright.²⁰
- Moreover, there is evidence that such providers inflate the price of the costs above other retailers so their users are repaying interest on a higher amount.

¹ http://www.thenpa.com/npa_key_facts.asp

² <http://www.bris.ac.uk/geography/research/pfrc/themes/credit-debt/pfrc1005.pdf> 2010 survey of 502 pawnbroker customers.

³ <http://www.bris.ac.uk/geography/research/pfrc/themes/credit-debt/pfrc1005.pdf>

⁴ <https://www.moneyadvice.service.org.uk/en/articles/pawnbrokers-how-they-work>

⁵ http://www.inclusioncentre.org.uk/debt_and_family_17.html

⁶ <http://www.bristol.ac.uk/geography/research/pfrc/themes/credit-debt/pfrc0707.pdf>

⁷ <http://www.bristol.ac.uk/geography/research/pfrc/themes/credit-debt/pfrc0707.pdf>

⁸ <http://www.bristol.ac.uk/geography/research/pfrc/themes/credit-debt/pfrc0707.pdf>

⁹ <http://www.centreforsocialjustice.org.uk/UserStorage/pdf/Pdf%20reports/balance.pdf>

¹⁰ http://web.archive.org/web/20130818115738/http://oft.gov.uk/shared_of/Credit/oft1481.pdf

¹¹ <http://www.accaglobal.com/content/dam/acca/global/PDF-technical/other-PDFs/pol-tp-pdlfab-payday-lending.pdf>

¹² <http://www.which.co.uk/news/2012/05/new-which-research-exposes-payday-loan-failings-286258/>

¹³ <http://www.guardian.co.uk/money/2012/may/26/payday-lenders-pawnbrokers-britains-high-streets?intcmp=239>

¹⁴ <http://www.accaglobal.com/content/dam/acca/global/PDF-technical/other-PDFs/pol-tp-pdlfab-payday-lending.pdf>

¹⁵ http://web.archive.org/web/20130818115738/http://oft.gov.uk/shared_of/Credit/oft1481.pdf

¹⁶ http://web.archive.org/web/20130818115738/http://oft.gov.uk/shared_of/Credit/oft1481.pdf

¹⁷ Payday Lending Compliance Review Final Report, The Office of Fair Trading

¹⁸ http://www.unitetheunion.org/news__events/latest_news/unite_warns_wonga_week_a_month.aspx

¹⁹ <http://www.which.co.uk/news/2012/05/new-which-research-exposes-payday-loan-failings-286258/>

²⁰ <http://www.guardian.co.uk/money/2011/dec/29/poorer-families-renting-household-goods?INTCMP=SRCH>