ON THE MARGINS

DEBT, FINANCIAL EXCLUSION AND LOW INCOME HOUSEHOLDS

Joe Cox, Kevin Gulliver and John Morris

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DIRECTION FOR THE DEMOCRATIC LEFT

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Foreword by Stella Creasy MP

Introduction by Mike Pritty, Chair of the Trident Social Investment Group

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As ever, any faults and omissions are the responsibility of the authors.

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THE CONTENTS OF THE REPORT, ITS CONCLUSIONS AND RECOMMENDATIONS ARE THE VIEWS OF THE AUTHORS AND DO NOT NECESSARILY REPRESENT THOSE OF THE SUPPORTING ORGANISATIONS.

About the research partners

Compass

Compass is committed to help build a Good Society; one in which there is far greater social, political and economic equality; where democracy is deepened at every level of the state, our workplaces and communities; where the sustainability of the planet is made an urgent priority and we recognise our interconnected fate across all nations; a society where the market is made to work as the servant of society. Compass wants to see a transformed Labour Party working with other parties, organisations and individuals in pursuit of this goal of the Good Society.

The Human City Institute

Established in 1996, HCI is an independent, charitable 'thinktank' undertaking research into 'human city' issues, investigating exclusion and promoting solutions to the problems of the most disadvantaged groups in today's complex and diverse cities, towns and communities. HCI's research is built around a thematic programme covering inequalities in housing, wealth and health; social justice; the geography of ethnicity, faith and exclusion; the role of social investment in alleviating poverty and disadvantage; and more sustainable human environments.

Trident Inclusion

Trident Inclusion is part of the Trident Social Investment Group of housing associations and social businesses and helps excluded communities in the Midlands. The activities delivered by Trident Inclusion are valued at £1m per annum but will grow over the next five years and will include income management, money advice and debt prevention, advice on business start-up, market intervention including mortgage rescue and housing 'buy-backs', affordable credit, improving opportunities and offering pathways out of poverty, and providing better home support through provision of services such as furnished lettings, handyperson services and environmental clean-up.

Foreword

by Stella Creasy, MP for Walthamstow

Access to credit is a crucial element of a growing economy. A fair, stable credit system allows people to plan ahead and shape their own futures. Yet in today's economic climate, as the cost of living soars, wages are frozen and unemployment rises, more people are using credit just to make ends meet. As the Government offloads the burden of public debt onto households, a new inequality is arising between those who can access affordable credit and those who cannot.

With lower-income households often excluded from the mainstream credit market, they are increasingly turning to high-cost credit providers such as payday and doorstep lenders whose business models often trap people in cycles of expensive interest payments. For the 46 percent of British people who are struggling to make it to payday, the exorbitant cost of such credit creates problems as 10 percent say high-cost credit is worsening their debts.

This report contributes to a growing body of evidence suggesting our society is now split between those who can make use of credit options that help them invest in their future, and those who are forced into self-defeating cycles of expensive debt. This new dividing line has severe implications not only for the well-being of those who find themselves on the wrong side of it, but for the future health of our economy and society as a whole.

It has become increasingly clear that doing nothing is not an option; the Government must put in place stricter regulations on the charges high-cost lenders levy, and ensure that more people have access to affordable credit. I welcome the contribution this report makes to the debate around how best to achieve these crucial goals.

Introduction

by Mike Pritty, Chair of the Trident Social Investment Group

Debt casts a giant shadow over the UK; both in terms of public and personal debt. As we tackle the fall-out from the international credit crisis and subsequent recession by re-shaping the welfare state and bringing down public debt mainly through spending reductions, there are major implications for low income households, many of whom live in social housing.

At Trident we are aware of how challenging the times ahead might be, since the people we house are already subject to poverty, disadvantage, debt and financial exclusion as this report shows. These tenants and communities are already living 'on the margins' with low incomes and savings, a propensity to use high cost credit and often excluded from mainstream financial services like High Street banks.

Housing associations - both as a sector and as individual organisations - are working hard to aid tenants experiencing debt and financial exclusion. The *'MyHomeFinance'* initiative, created by the National Housing Federation, has provided access to low interest finance for tenants across the Midlands, which Trident has supported. Many associations, including Trident, have also created or are supporting debt and money advice services, credit unions and community-based finance initiatives.

Yet these initiatives are insufficient to tackle the deep-rooted poverty of tenants, which can only worsen as the changes to the welfare system take effect. Only a concerted effort to provide a living income for all, increase employment opportunities, create a community finance network that has real national coverage, and enable tenants to control assets will reduce the demand for legal and illegal money lenders who prey on our most vulnerable communities.

Summary

Objectives of the report

These include:

- To provide a snapshot of how high-cost lending is affecting lower income groups including social housing tenants and to give a human face to the statistics through case studies.
- To contextualise the interrelated problems of high cost lending and credit dependency.
- To put forward workable short-term and long term policy solutions for policy makers.
- To open up a conversation around the role, limits and functioning of credit markets as well as debates around 'fairness' and 'social justice'.

Research approach

Approaches include:

- The findings from the 'Compass End Legal Loan Sharking' campaign.
- Original research including a survey of 252 social housing tenants in the Midlands through depth interview by an independent market research company.
- Case studies of social housing tenants in debt and experiencing financial exclusion based on a review of files from the Trident Money Advice Centre in the Midlands.
- A review of current literature about financial exclusion and debt, their relationship with wider economic and social trends, and their linkage to social housing.
- A review of how the 'age of austerity' changes to welfare by the Coalition Government will affect the scale of debt and financial exclusion, particularly among low income communities, including those living in social housing.

Main findings

1. As the Government reduces public debt, its economic projections are predicated upon a massive increase in personal debt from £1.5 trillion in 2010 to £2.1 trillion in 2015, representing an increase of two fifths in the UK's personal debt, or from 160 to 175 percent of household income. Average household debt is projected to rise to £81,000 in 2015 from around £58,000 in 2010. The public debt is effectively being 'privatised' with households predicted as borrowing another £600 billion over five years; mainly secured against their homes. However, taking into account the state of the housing market, the economy and personal finances, this amount of extra debt seems unlikely, which has implications for the Government's economic plans, especially relating to economic growth.
2. Debt is a major issue for low income households, many of whom are already financially excluded in terms of access to affordable credit. One fifth of low earners, of whom there are 14 million in the UK, say their debt burden is heavy. More than one third have no savings at all and one fifth have less than £1,500 in savings. Social housing tenants constitute around 6 in 10 of financially excluded households of whom 1 in 6 have no bank account, 8 in 10 have no savings and 9 in 10 have no insurance cover. From the survey for this report, over half of social tenants have incomes below £5,200 and four fifths below £10,500.
3. Debt and financial exclusion among low income households generally, and among social housing tenants in particular, are likely to worsen in the wake of Government changes to the welfare system, especially Housing Benefit caps and occupancy rates, and introduction of Universal Credit. Pegging benefit rises to the lower measure of inflation, a stagnant economy and wages, persistently high unemployment, and a soaring cost of living will all erode the living standards of low income households and increase their reliance upon debt to make ends meet.
4. At the same time, low income households are more likely to depend upon high-cost credit, including pay-day loans, rent-to-buy retail credit, home credit and pawn-broking as well as the more unsavoury and illegal loan sharks, as High Street banks withdraw from the low income (or 'high risk') market. This

is evidenced from the fourfold increase in use of pay-day loans and the threefold increase in pawnbroker business.

5. High-cost credit is a major problem in the UK because it increases inequality, with low income households having to pay a 'poverty premium'; it creates greater credit dependency; it exploits the poor and vulnerable; and distorts the credit market overall. More than one third of social tenants in the study had already had an 'awful' experience with such lenders and half said that had been harassed by these lenders.
6. The UK has an unbalanced and consequently unfair credit system within an economy where the financial sector has an overbearing influence on policy development.
7. Social tenants say they need greater opportunities to obtain work that pays, a more supportive welfare benefits system, and better opportunities to train, start businesses and to save. Tenants also want social landlords to provide a greater range of financial inclusion services, although many already do and the NHF has recently created a lower-cost credit system in the Midlands. This is in the 'bottom-line' interest of social landlords too to protect rent income, sustain tenancies, and minimise vacancies.

Policy recommendations – general

1. The Government should examine whether income and benefit levels are adequate to avoid credit dependency.
2. The Government should implement a universal right to a basic bank account.
3. The Government should look to pass similar legislation to the U.S Community Reinvestment Act. A Community Reinvestment Act would encourage commercial banks and savings organisations to meet the needs of borrowers in all segments of their communities, including low- and moderate-income neighbourhoods.
4. The Government should ensure that there is an affordable credit scheme of sufficient scale to become a genuine, locally based alternative accessible across all of Britain.
5. The Government should look again at giving regulators new powers to define and ban excessive interest rates in non-competitive sectors such as home credit and pawnbroking.
6. Lenders in uncompetitive markets should pay a levy on their excessive profits every year until the market becomes competitive.

Policy recommendations – social housing

1. The National Housing Federation (NHF), supported by member housing associations, should oversee an expansion of the '*MyHomeFinance*' initiative beyond the Midlands and ultimately to be a national service accessible to all tenants.
2. Social landlords should become more involved in developing bespoke money advice and debt counselling services and community finance initiatives to their tenants, or support existing services now that the local state is retrenching and withdrawing support for such services.
3. Social landlords, and their two main representative organisations the NHF and the Chartered Institute for Housing (CIH) should develop a greater range of pooled services and a knowledge bank to support comprehensive roll-out of financial inclusion initiatives across the country.
4. The use of furnished tenancies using high quality (as well as recycled) furniture and white goods should become more widespread across the social housing sector.
5. Social housing tenants must be enabled to own and manage assets related to their housing without moving into unsustainable home ownership.

1. Introduction

About the report

Britain has become a nation of debtors. The much publicised public debt, which is as a consequence of falling tax revenues due to the banking collapse and ensuing recession, and which has existed since 1692, is dwarfed by the debt owed by households; currently running at 100 percent of Gross Domestic Product and predicted to grow to around 130 percent over the next five years.[1] But the scale of personal debt (that owed by Britain's households) is a relatively new phenomenon which stood at £370 billion in 1993 - only one quarter of today's level - and is associated with the growth in home ownership, housing hyper-inflation, and the ability of home owners to draw on their burgeoning equity.[2]

Growing debt is a particular issue for low income households, many of whom live in social housing. Compass' recent conversations with the leading Citizens organising group, London Citizens and other campaigners, revealed that people on low incomes, generally unable to draw on housing equity and with few other assets, were facing increasing pressures to use high cost lenders. This pressure has increased as a result of the credit crunch and the recession.[3]

Stagnating wages, high unemployment and soaring living costs have been creating a perfect storm where more and more people, especially those with little economic choice, are becoming reliant on high cost credit to make their incomes stretch to the end of the month. This has been taking its toll on vulnerable communities, many of which are accommodated by social housing providers such as housing associations.[4]

Consequently, and as part of the Compass 'End Legal Loan Sharking' campaign, the Birmingham-based 'thinktank' the Human City Institute and Trident Inclusion, part of the Trident Social Investment Group located in the Midlands, have come together with Compass to explore debt and financial exclusion among low income households; especially those living in social housing.

To this end, research began in late November 2010 culminating in publication of an interim report 'Living on the Edge' in May 2011, which provides a more detailed overview of the findings of survey of social housing tenants (see the Appendix at the back of this report).[5]

Report objectives and approach

The objectives of the 'On the Margins' report are to:

- provide a snapshot of how high cost lending is affecting lower income groups including social housing tenants and to give a human face to the statistics via case studies of debt;
- contextualise the interrelated problems of high-cost lending and credit dependency;
- put forward workable short-term and long term policy solutions for policy makers;
- open up a conversation around the role, limits and functioning of credit markets as well as debates around 'fairness' and 'social justice'.

The report is based upon:

- the findings from the 'Compass End Legal Loan Sharking' campaign;
- original research including a survey of 252 social housing tenants in the Midlands through depth interview by an independent market research company;
- case studies of social housing tenants in debt and experiencing social exclusion based on a review of files from the Trident Money Advice Centre based in the Midlands;
- a review of current literature about financial exclusion and debt, their relationship with wider economic and social trends, and their linkage to social housing;
- a review of how the 'age of austerity' changes to welfare by the Coalition Government will affect the scale of debt and financial exclusion, particularly among low income communities, including those based around social housing.

About the Compass campaign

The Compass 'End Legal Loan Sharking' campaign was launched in summer 2010.[6] The campaign brought together a wide ranging

1 OBR Household Debt in the Economic and Fiscal Outlook

2 For these statistics see www.statistics.gov.uk/hub/economy/index.html

3 This came in the form of overwhelming anecdotal evidence from London Citizens, other campaign groups and Members of Parliament

4 (Elliott 2011)

5 www.humancity.org.uk/publicationsRef11.htm

6 www.endlegalloansharks.org.uk/our-supporters

coalition to encourage the government to act and protect the UK's most vulnerable borrowers.

All campaign partners signed up to a version of the statement below:[7]

> The UK now has one of the highest levels of personal debt in the world - in April this year the British people owed £1.5 trillion in private debt. Debt has become part and parcel of everyday life many of us owe money on a credit card, loan or overdraft. Borrowing money can be beneficial, personally and economically, as is the case with student loans, business loans and mortgages. However, there is a tipping point at which borrowing becomes detrimental to the borrower. Irresponsible lending can cause debts to become unmanageable: some loan and credit companies are charging annual interest rates equivalent to over 2,500 percent (despite the Bank of England base rate being just 0.5 percent).
>
> Borrowing at these rates repeatedly tips customers into inescapable cycles of debt and poverty. High debt repayments are linked to rent, council tax and utility arrears, constraints on job seeking behaviour, poor diets, cold homes, and mental and physical health problems. This is legal loan sharking, a national scandal which must be stopped. In response to our growing private debt crisis we believe now is the right moment to adopt the policy of lending rate caps for all consumer credit.
>
> Affordable short-term credit is needed more than ever to help make ends meet as people face huge cuts in public services, reduced working hours, stagnant wages, and unemployment. Despite this because millions on lower and middle incomes are not catered for by many High Street banks, they have no choice but to borrow at usury rates. As a result, those most in need often pay the highest rates to obtain credit. Around 3 million people use high-cost door to door loans which often charge £83 in interest and collection charges for every £100 borrowed.[8]
>
> Irresponsible high cost lending played a key role in causing the credit crunch, and the ensuing worst economic crisis for over 60 years. Financial institutions are now using the economic crisis as a means to make profit from the most vulnerable in our society.
>
> The Government has committed to regulate excessive interest rates on credit and store cards, and yet is paradoxically allowing the much more pernicious practice of legal loan sharking to continue. Government initiatives to date have not worked: The Growth Fund, set up to increase the availability of affordable credit to the poorest households, is nearly £100 million. In contrast, the OFT estimates that the high cost credit sector is worth £35 billion annually.[9]

Compass continues to work with politicians and campaign groups to try to ensure that the government implements sustainable solutions to the problem of credit dependency and debt.

Structure of the report

The report begins by setting the scene about household debt in the UK, its relationship with the housing market and projections of future trends. It then moves on to investigate the interrelationship between debt, financial exclusion and low income households, and the crossover with social housing tenants.

There is an appendix at the back of the report which explains the survey methodology. The results of the survey, however, are sprinkled throughout the report, as are selected human case studies of debt and how money advice services can help those on low incomes overcome their debt problems.

The final two sections of the report explore the need for a fairer credit system in a re-balanced economy and make some general recommendations and others specifically for the social housing sector.

7 The original statement can be found at www.endlegalloan-sharks.org.uk/about-2-2

8 www.news.bbc.co.uk/1/hi/business/8402393.stm

9 www.oft.gov.uk/news-and-updates/press/2009/78-09

2. Debt in the UK

Overview of household debt

Household, or personal, debt in the UK is now at an all-time high in both cash terms and as a percentage of household income. Total UK personal debt at the end of February 2011 stood at £1,454 billion. The twelve month growth rate remained unchanged at 0.7 percent. Individuals currently owe more than the entire country produced during the whole of 2010.

Household debt has increased almost threefold over the last two decades in contrast to a doubling of Gross Domestic Product (GDP) over the period. Personal debt has, therefore, leapt ahead of economic growth with consumer spending fuelled by this debt overhang.

Despite a certain amount of 'plateauing' since 2008 [see chart (1)], the Office for Budget Responsibility[10] predicts that household debt will increase to more than £2.1 trillion by 2015. Indeed, the Government's economic strategy is predicated on an increase of one third in personal debt to compensate for the reductions in public spending. Household debt as a percentage of household income is projected to rise from 160 to 175 percent by 2015 [see chart (2)].

Today, personal debt equates to approximately 100 percent of Gross Domestic Product (GDP) but, if the OBR's projections are realised, by 2015, personal debt will equal 125 percent of GDP.

This raises concerns about the medium to long-term financial implications for households and their ability to service these debts and, particularly for people in low-income households, to maintain their standard of living whilst doing so.

A snap-shot of UK household debt

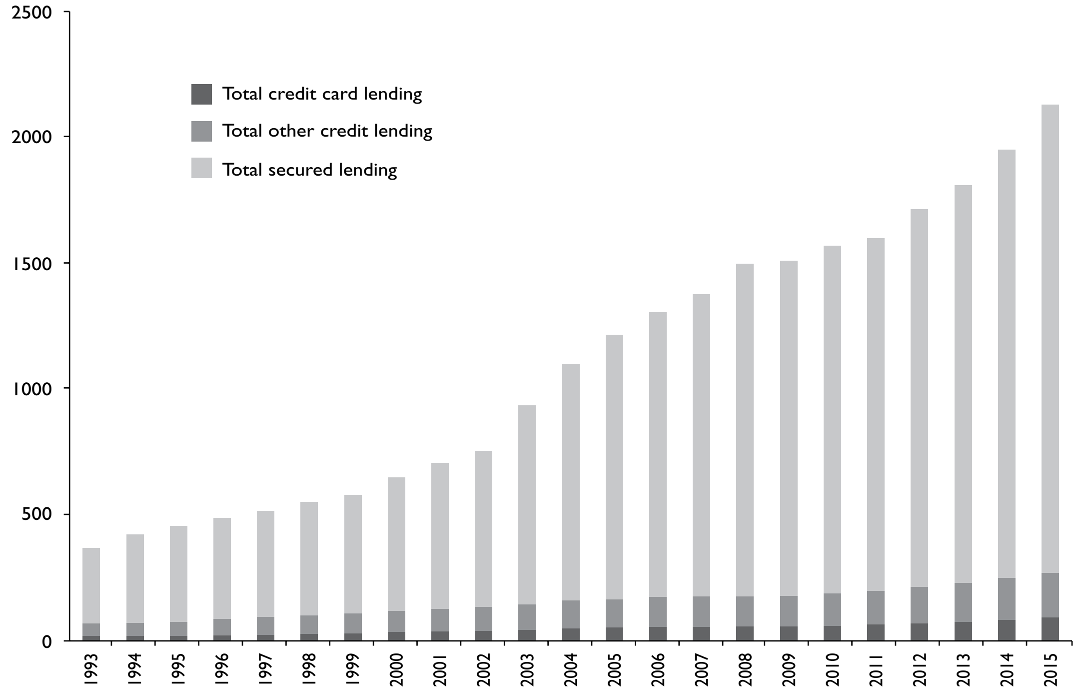
Using data from a range of sources, including the Bank of England, Credit Action[11] provides a snap-shot of current household debt in the UK:

- Total lending in February 2011 rose by £2.0 billion; secured lending increased by £1.2 billion in the month; consumer credit lending increased by £0.8 billion.
- Total secured lending on housing at the end of February 2011 stood at £1,242 billion, or 85 percent of total personal debt. The twelve-month growth rate remained unchanged at 0.7 percent
- Total consumer credit lending to individuals at the end of February 2011 was £21.2 billion. The annual growth rate of consumer credit rose 0.3 percentage points to 1.1 percent.
- UK banks and building societies wrote off £9.7 billion of loans to individuals in the four quarters to end Q4 2010. In Q4 2010 they wrote off £2.27 billion (£1.18 billion of that was credit card debt). This amounts to a write-off of £24.88 million per day.
- Average household debt (including mortgages) in the UK is £57,697. If the OBR projections are accepted, this will increase by around 40 percent to stand at almost £81,000.
- Average household debt (excluding mortgages) in the UK is £8,428 from credit cards, personal loans and other forms of unsecured borrowing. This figure increases to £16,207 if the average is based on the number of households who actually have some form of unsecured loan rather than the total population.
- Average consumer borrowing via credit cards, motor and retail finance deals, overdrafts and unsecured personal loans has risen to £4,363 per average UK adult at the end of February 2011.
- Average owed by every UK adult is £29,871 (including mortgages). This equates to 126 percent of average (median) earnings. The average outstanding mortgage for the 11.4 million households who currently have mortgages now stands at £109,064 (or two thirds of the average house price).
- Britain's interest repayments on personal debt were £66.3 billion in the last 12 months (February 2010 to February 2011). The average interest paid by each household on their total debt is approximately £2,629 each year, or one tenth of average (median income).

10 OBR (2011) Economic & Fiscal Outlook

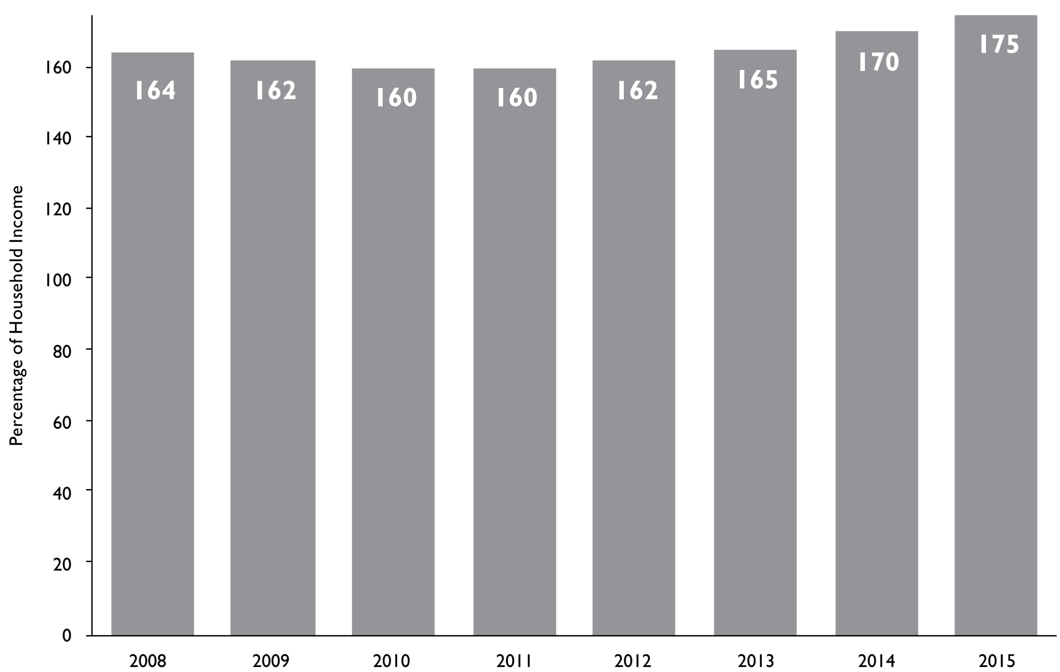
11 www.creditaction.org.uk

Chart 1 – UK household debt by type (1993-2015)



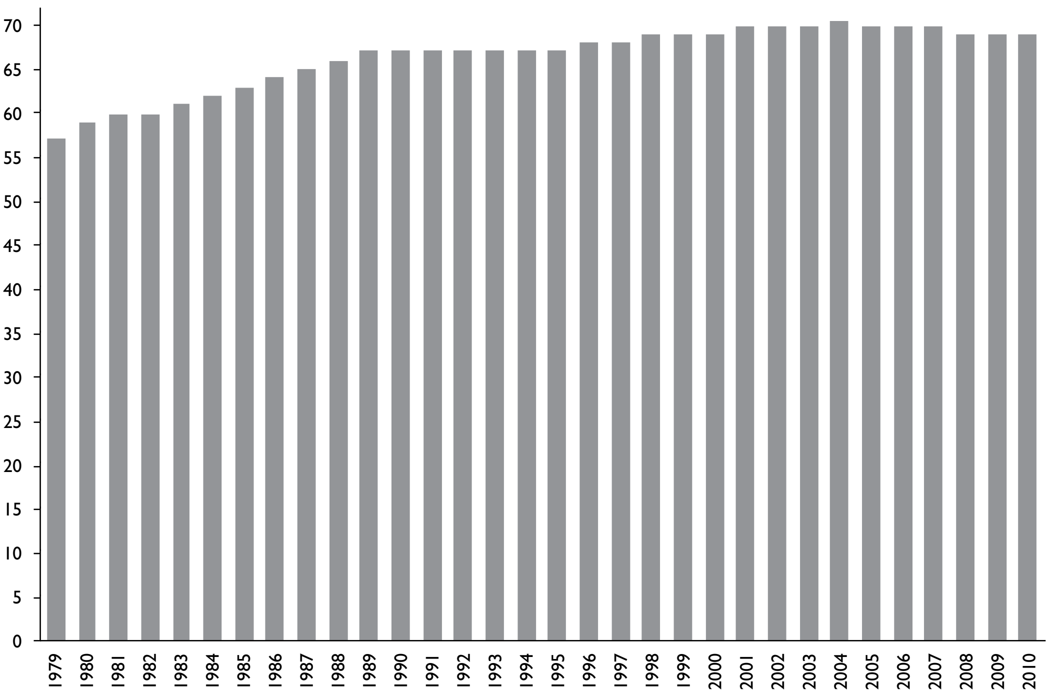
Source: Credit Watch from Bank of England data; OBR Household Debt Report (2011)

Chart 2 – UK household debt as percent of household income (2008-2015)



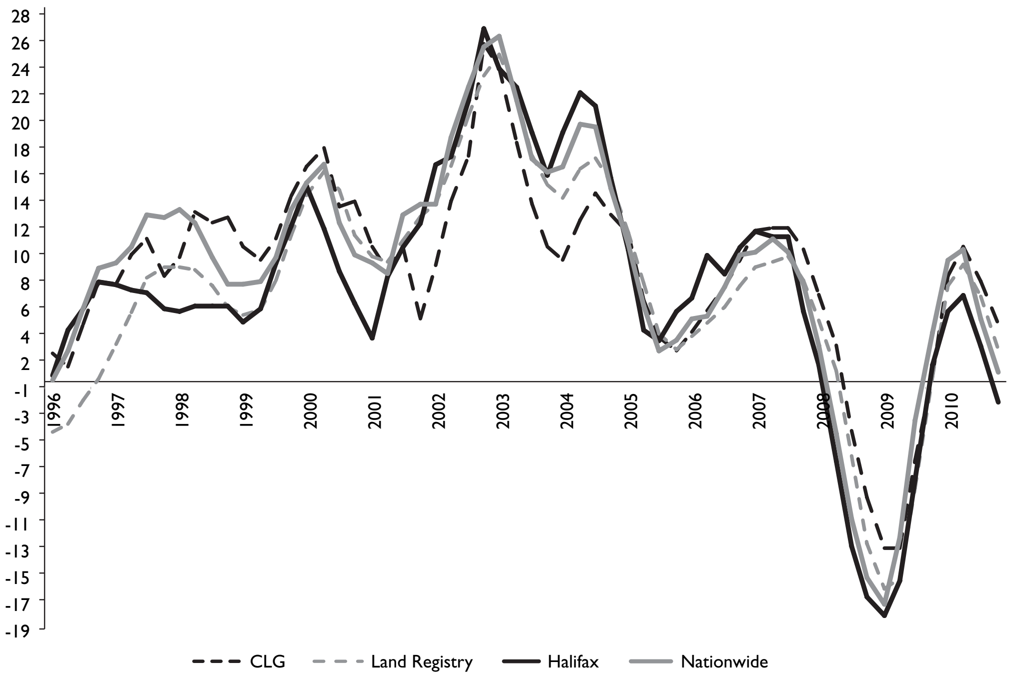
Source: OBR Economic & Fiscal Outlook & Household Debt Report (2011)

Chart 3 – Percentage change in home ownership (England 1979-2010)



DCLG Live Tables (2011)

Chart 4 – Comparisons of house price indices (1996-2011)



Source: Department of Communities & Local Government (2011) Live Tables

The housing market and the sustainability of debt levels

It is clear that the UK's relationship with personal debt cannot continue at the rate predicted by the OBR to fuel projected meagre economic growth (in historical perspective) over the next five years while public debt is reduced faster than needed with the inevitable persistently high unemployment, lack of investment in public infrastructure this implies and stalling consumer confidence.

The OBR's household debt forecasts are also highly dependent upon a reasonably buoyant housing market. OBR forecasts imply rising house prices to fuel equity withdrawal and underpin secured borrowing. This seems unlikely given the current state of the housing market.[12]

As chart (4) shows, the UK housing market has been characterised by persistent price instability as measured by the four main house prices indices. Yet as research by the Joseph Rowntree Foundation (JRF) Housing Market Taskforce[13] reveals, increasing numbers of households are being priced out of the market and ownership levels are falling [confirmed by chart (3)], particularly among younger people. The current model of home-ownership has become stretched beyond its limits and it seems likely that the UK, with one of the world's largest home ownership sectors, has reached saturation point, and is very unlikely to expand in the foreseeable future.

The volatility of the UK housing market, as the JRF study demonstrates, extends the risk of arrears and repossessions to more households. At the end of 2008, the Taskforce reports, 2 million households with mortgages would have found it difficult to move due to limited or negative equity in their homes. Large differences in house prices and different expectations of house price inflation between regions create a 'mobility trap', making it difficult for some people to move from one region to another and deterring others from doing so altogether.

These are not ingredients to underpin an expansion of the home ownership sector in terms of the proportion of UK households nor in terms of rising house prices to support secured borrowing. It is more likely, especially if the UK's economic growth rate remains sluggish and unemployment remains high (particularly youth unemployment) that home ownership will not expand quantitatively or qualitatively. The increase in an extra £500 billion in borrowing predicted by the OBR is probably unrealisable, even if it were desirable.

If personal borrowing is to be expanded then it seems likely that it will be increasingly unsecured borrowing and/or more and more from less 'conventional' sources, including high-cost credit companies and illegal loan sharks, as High Street banks are unable to respond to demand for credit.

12 Land Registry (2011) House Price Index April 2011

13 JRF Housing Market Taskforce (2011)

3. Debt, financial exclusion and low incomes

David Orr, Chief Executive of the National Housing Federation summed up the problems low income households face when dealing with budgetary matters:

> 'People who have very little money have a vested interest in budgeting well and most do so superbly well. It may be cash based, or the traditional jam jars on the shelf, but it works. The difference between people with little money and those with plenty is not primarily about budgeting. It's about not having enough money. If I get my budget a bit wrong, there aren't really any consequences. For people on a household income of £100 a week, any failure in budgeting has real and often painful consequences'.[14]

Having a low income, then, is a key driver of financial exclusion, unmanageable debt and despair by the day. While those on higher incomes also have debt problems, debt scars the day-to-day lives of those on lower incomes. Getting to the end of the week and the pay packet or benefit cheque is a constant struggle.

Research by the Resolution Foundation[15] demonstrates the extent of financial exclusion and debt among low income households. Its 'Behind the Balance Sheet' report reviewed financial inclusion and financial capability in low earning households (defined as those households living on below median income who remain broadly independent of state support).

For the 14 million low earning adults living in 7.2 million households in the UK, these figures show that:

- Housing, fuel and power, and food account for around 26 percent of the disposable income of low earning households, compared to 15 percent for higher earners.
- Over a quarter of low earners say that they usually run out of money each month and over a half of low earners report problems with bills and credit commitments. A fifth of low earners say their debt burden is 'heavy'.
- 35 percent of low earners had no reported savings in 2007/8, and a further 21 percent have less than £1,500 in the bank.
- 53 percent of low earners join superannuation pension schemes where they are available, and while 83 percent of higher earners have these schemes offered to them, just 60 percent of low earners do.
- Low earners are less likely to have the safety net of insurance to fall back on: 39 percent of low earners, compared to 58 percent of higher earners, take out life insurance. This pattern is mirrored in use of contents, critical illness and income protection insurance.

The survey of social housing tenants for this report reveals how low the incomes of many tenants can be. The average (mean) net income of tenant households (after deductions for tax and National Insurance but including Tax Credits) per annum is £7,582.

Over half (54 percent) of tenant households have incomes below £5,200 with the median income being around £5,000. Some 79 percent have annual incomes below £10,500. Only 2 percent have incomes above the national median wage of approximately £25,000.

Just over 29 percent of tenants have income from earnings, 47 percent receive Income Support, 11 percent receive Incapacity Benefit and 2 percent Disability Living Allowance. A further 7 percent receive a pension from a previous employer and 3 percent are in receipt of a state pension.

Financial exclusion and social housing

According to the National Housing Federation and the Chartered Institute of Housing,[16] social housing tenants are disproportionately affected by financial exclusion and debt. They make up around 60 percent of all financially excluded people but constitute only 20 percent of the general population.

Key characteristics of social housing tenants include:

- nearly one in six social-rented tenants have no bank account, twice as high a proportion as the rest of the population;

14 www.housing.org.uk/about_us/leadership_team/david_orrs_blog/dont_patronise_tenants_give.aspx

15 Resolution Foundation (2009) Behind the Balance Sheet.

16 NHF (2008) Financial Exclusion in Social Housing & CIH (2011) Improving Financial Inclusion and Capability in Social Housing

- 81 percent have no savings account;
- 91 percent have no insurance cover.

Many tenants, in the survey for this report, have trouble stretching their incomes to the end of the week (74 percent of respondents have troubles of some kind with their household budget) and a significant minority have to rely on credit, often expensive credit. Indeed, the average debt of those surveyed was 14 percent of median income and a considerable 20p in every £1 of tenants expenditure goes towards debt repayments. Eight percent say they 'always' have problems with debt repayments. Twelve percent said they 'often' have trouble making repayments and 44 percent said sometimes. The majority of those surveyed had problems repaying their debts. Many of those who were surveyed confirmed that they were indeed credit dependent - that is, they did not have enough income to meet necessities so were forced to borrow from high cost lenders.

The CIH (2011) report charted the growth in financial inclusion issues in recent times among social landlords in relation to their tenants: 84 percent had seen an increase in the demand for debt advice and counselling.

The cumulative impact of financial exclusion is that the communities social landlords serve are losing millions of pounds through high loan interest charges and under-claiming of benefits. Social landlords need to tackle this problem more urgently, and are in a position to make a major contribution to the promotion of financial inclusion in such communities. As 'trusted intermediaries' they can make the link to financial inclusion for those that others find hard to reach. As 'community anchors' and large social enterprises at the heart of the communities they serve they can facilitate and drive financial inclusion partnerships and projects.

The NHF report also found that financial inclusion work can help social landlords become more cost-efficient:

- rent arrears are often associated with a household having wider debts;
- court actions and evictions, the vast majority of which are on the grounds of rent arrears, are expensive for landlords;
- tenancy abandonment is often associated with financial stress, and abandoning tenants often leave behind arrears that risk turning into un-collectable debt;
- dealing with tenants in crisis is much more time consuming than investing in early intervention.

Types of debt

The research reveals that arrears on utilities and rent were the most common form of debt and were most prevalent among those in receipt of benefits and those who had typically 'churned' between low wage and benefit income. This demonstrates the inadequacy of income levels for sustaining a minimum standard of living over time, and the need for sustainable jobs.

Delays in processing benefits, local authority rent recovery practices and some utility companies' demands for up-front lump-sums to start repayment plans also reduced ability to manage debts more effectively.

As one 31-year old single parent with one child on a low income commented:

> 'It's not as though I'm not aware of budgeting, and this is what I normally do as a family, but there just isn't enough to cover everything and if I've got one thing under control, then I'm taking from something else, for something we need, like food shopping or rent - general living'.

For many, the interest on credit card debts for items purchased years ago, when in a more financially secure position, continued to mount long after they had become ineligible for this form of credit. It was still possible for some to access credit via a partner, however, pushing the household further into over- indebtedness.

Many incurred high bank charges on unarranged overdrafts. There were also participants struggling to repay bank loans taken out during an earlier period of employment, and evidence of unsecured loans being placed in the hands of debt collection agencies. Experiences of relationships with such agencies varied, but some found agency personnel intractable, and sometimes unpleasant.

Instalment buying was commonly used to buy furniture and household goods and services. This could be from catalogues, from stores like 'BrightHouse' where goods are primarily bought

Case study of debt: general needs tenant with floating care and support

John Smith was suffering from depression and had consistently defaulted on his rent arrangements since moving into the property with arrears of £1,500. He had defaulted on his suspended possession order with the next step being eviction. Advice and assistance was individually tailored to John's needs including improving his money management skills. He also had other priority and non-priority debts including an old bank overdraft, Council Tax, utility bills, high interest credit loan, mobile phone, catalogue, internet and TV. Although the debts were not particularly high totalling around £4,000, the type, number of debts and repayment levels required from his creditors meant that John felt that they were causing him anxiety making his depression worse. Trident helped John with the basic principles of budgeting, keeping him involved with the process, helped him to prioritise his debts, maximise income and minimise expenditure - ensuring claimed full benefit entitlement, assistance from utility charitable trust and negotiate affordable payment plans on his debts. The money advice enabled John to remain in his home. He has since maintained all rent payments and his agreement towards clearing rent arrears. John also gained more confidence and with encouragement from his support workers has been able to engage in voluntary work within his local community. John said:

> 'After having a number of debts mounting up from the start of 2009, included utility bills, rent, and previous bills due to my poor money management, Trident was able to put my income and outgoings into perspective and help with a budget and arrange payments to people that I owed money too. I was put in contact with Circul-8, a Credit Union based in Ladywood, Birmingham. With extended help from Circul-8, they set-up regular payments for all my outstanding bills and my rent'.

on a 'pay weekly' credit basis, or from a TV 'pay to view' arrangement, where a television meter is fitted and a tariff set in accordance with usual viewing patterns and monthly repayment levels. Many people were fully aware of the disproportionately high levels of interest, but saw no alternative way of purchasing these goods. In these circumstances, the affordability of the weekly repayment was more important than the added expense compared with being a cash buyer.

Those using doorstep lenders tended to do so in a 'serial' way, having a long-standing relationship with the company through the agents who collected payments. Serial borrowing was often encouraged, by 'rewarding' customers' ability to repay by offering a further loan. Again, the 'manageability' of instalment amounts, and the flexibility for borrowers to miss repayments from time to time was seen as more important than the interest being charged. Less common forms of borrowing included the Social Fund and Credit Unions.

Other key findings show that:

- over-indebtedness was more typically due to inadequate income than to 'consumerism';
- patterns of borrowing/over-indebtedness varied across people's lives: – consumer spending with credit/store cards and loans on becoming eligible for credit at 18, and when setting up home:
- taking on arrears and formal/informal borrowing to 'make ends meet' when supporting a family;
- 'inheriting' debts following family break-up; and
- getting further credit to pay accumulated debts, leading to a 'debt trap';
- triggers into over-indebtedness included moving in and out of low-paid work and associated delays in the processing of benefit payments; long-term benefit income; unanticipated and/or or large costs; and ill health/ disability;
- the targeted marketing of expensive credit to vulnerable borrowers, punitive bank charges, and up-front lump-sums to start repayment plans all discouraged progress towards manageable levels of debt;
- previously documented links between over-indebtedness and mental ill-health were confirmed;

Case study of debt: general needs tenant

Paula Jones called Trident to say that she could not afford her rent and had already been struggling financially due to long term sickness from work having been diagnosed with Cancer. Paula was not familiar with the Welfare Benefits system. She had a partner, they wanted to move in together especially as she was ill and he could help her out. However, she was worried that they would not be able to afford to. Paula's partner was also not claiming his full benefit entitlement so Trident advised them on this. The assistance Trident provided saw their income increased by £134 per week through Disability and Carers' Benefits. Advice about health costs and hospital fares was offered and Paula was signposted to a specialist agency which could provide her with specialist advice, information and support on her illness. The help Paula received had a positive outcome on her finances and wellbeing. It relieved stress as she was able to afford her rent and would not end up homeless. Paula said:

> 'I have never been so well-off. I am grateful to Trident for the help they gave as I did not know where to turn and would not have been able to find out the information by myself'.

- work offered a route out of over-indebtedness and poverty, but only if it was permanent sustainable employment that paid adequately;
- savings offered protection, but even small amounts of saving were only feasible for those in work;
- the complexity of people's financial situations meant that ongoing money advice was more likely to be effective than a one-off consultation.
- the evidence supports greater regulation of lenders, rather than limiting the accessibility of credit for people on low incomes.

Current policy direction

The Coalition Government, through its emergency Budget and the Comprehensive Spending Review (CSR), has set in train a series of policy changes which will have profound effects on the financial exclusion and debt of low income households.

The Coalition proposes to bring in these changes to tackle the public deficit and most are planned over this five year Parliament, although some will be auctioned sooner than others.

In particular, cuts of around £7 billion to welfare benefits, reductions in support to local authorities which is putting pressure on local services (including money and debt advice services), the introduction of Universal Credit, and capping of Housing Benefit will all put pressure on low incomes and meagre budgets, pushing more of the most socially and financially excluded into, or further into debt, and general hardship.

The National Housing Federation (2010) commented in October:

> 'It is clear that some of the poorest and most vulnerable in society are likely to be affected by many of the changes announced by the Chancellor, particularly around welfare benefits. This is likely to mean that many people who access services offered by housing associations will see their personal financial situation worsen'.[17]

The Welfare Reform Bill, as homeless charity Shelter[18] reports, enables Local Housing Allowance (LHA) and (once introduced) the housing element of Universal Credit will be linked to the Consumer Prices Index (CPI) rather than to the cost of rent. Since both benefits will be eroded over time against the real rent levels and the real cost of living the ability of tenants to sustain already precarious tenancies and not fall into debt will be severely affected.

A further reform is that Housing Benefit for working age claimants in social housing will be restricted for tenants assessed as under-occupying, which will also put stress on already stretched household budgets and for tenants to move to alternative housing.

The Bill also introduces a new cap on the maximum amount of benefits households can claim, targeted at households in which the adults are out of work. This has been set at £26,000 per annum for couples and lone parents, and around £18,000 for singles. The government's impact assessment suggests 50,000 households will be affected by this measure, which will see a major fall in their incomes.

17 National Housing Federation (2010) Comprehensive Spending Review – A Briefing for NHF Members

18 www.shelter.org.uk

4. An anatomy of high-cost credit

What is credit?

Access to credit is vital for the functioning of advanced capitalist economies. Businesses use credit to invest, buy stock or tide them over before stock is sold. When businesses cannot access affordable and flexible credit they suffer. Credit is equally useful for individuals and has become part and parcel of everyday life – many of us owe money on a credit card, loan or overdraft. Some obvious examples of where credit is beneficial and necessary include student loans and mortgages. Yet there are countless examples of where high cost credit or unaffordable credit has made difficult financial situations worse for families and individuals.

What is high-cost credit?

There is no single accepted definition of high-cost credit. Rather the Office of Fair Trading found that markets for high-cost credit include the following products:

- home credit
- short-term small-sum lending including payday loans
- pawn-broking, and
- rent-to-buy retail credit.

Loans to consumers in this sector reached £7.5 billion in 2008.[19]

Trends in the high-cost credit market

High street banks have consciously not chosen to cater for 'high risk' groups that often need to borrow small amounts of money for short periods of time. This is because the proportion of money that can be earned from a small, short term loan is lower than from a large loan.

Similarly they fear the reputational risk of charging extortionate APRs.[20]

The unwillingness of high street banks to lend to those on low incomes has been exacerbated by the credit crunch and the recession. This has meant a huge growth in the number of people using high cost credit. Consumer Focus found that:

> 'the recession has led to rapid growth in demand for payday loans due to lower income consumers being financially squeezed; the reduced availability of other unsecured loans; and consumers being reluctant to take out longer term loans to finance short term cash needs.'[21]

The number of payday loan users has increased fourfold and the number of pawnbrokers has trebled in seven years.[22,23] The home credit market looks increasingly profitable for the market leader with Provident Financial posting a 7 percent year on year increase in sales.[24]

Despite this the amount of unsecured lending has actually been slowing dramatically over the past three years, consumer credit lending decreased by £0.1bn in November 2010 for example.[25] Our survey found that 31 percent of tenants interviewed still said they found it difficult to obtain credit.[26] On the whole evidence suggest that consumers are finding it harder to obtain 'mainstream' credit, forcing them to use more high cost options.

As banks are lending to fewer customers overall, there is also evidence that doorstep and payday lenders are moving up the income scale.[27] With this in mind the need to ensure the government has the right regulation in place to protect vulnerable consumers from the highest costing credit is pressing.

The response of policy-makers

The Government has pledged to 'give regulators new powers to define and ban excessive interest rates on credit and store cards', but the Coalition Agreement did not pledge to take action to reduce the cost of other forms of credit.[28] In September 2010 the National Housing Federation launched '*MyHomeFinance*', in collaboration with the Royal Bank of Scotland, 26 housing associations and the Wates Foundation it aimed to provide affordable loans charging a typical APR of 29.9 percent.[29] The Government acknowledged that

19 Review of High Cost Credit: Final Report, Office Fair Trading (2010), pp.13

20 New Economics Foundation (2009) Doorstep Robbery

21 Keep the Plates Spinning, Consumer Focus (2010)

22 Ibid

23 The Metro, *Experts warn of Britain becoming a nation in hock to pawnbrokers*, 05.09.10

24 www.ft.com/cms/s/0/5653ed2c-f7db-11df-b770-00144feab49a.html#axzz18lVBsDQw

25 Total UK Personal Debt www.creditaction.org.uk/helpful-resources/debt-statistics.html

26 A question remains over easier access to credit is always a positive thing, especially if it meant they would be increasing their levels of debt.

27 New Economics Foundation (2009) Doorstep Robbery

28 The Coalition: Our Programme for Government, HM Government, www.direct.gov.uk/prod_consum_dg/groups/dg_digitalassets/@dg/@en/documents/digitalasset/dg_187876.pdf

29 www.myhomefinance.org.uk/loans.html

Case study of debt: general needs family

Selina Marks was working part-time on a low wage with dependent children. She had rent arrears and had been in severe financial hardship for trying to pay for all of her rent, Council Tax, and bills out of her small, part-time earnings. Although Selina had lived in the UK for 10 years, she did not realise that she was entitled to Welfare Benefits or Tax Credits whilst working. Trident completed a Welfare Benefits check and assisted Selina with backdated claims for - Child Benefit, Tax Credits, Housing and Council Tax Benefit, improving her income by £4,500 per year. The backdated Benefits helped clear rent arrears and other debts so ensuring that Selina and her children didn't become homeless. Selina said:

> 'I felt embarrassed when we went through the income and expenditure and saw exactly how much money I had coming in and where it was going. I had never had anybody spend so much time with me before. I did feel a bit stupid but am glad I did this and if I had somebody to show me this before I probably would have avoided all the mess. I now know what to do and what help there is if I have any problems in the future.'

this was a response to a problem at the time saying the scheme was aimed at people who were financially excluded by the high street banks because they have a poor credit rating or a low income. Whilst the scheme must be welcomed as a step in the right direction efforts to scale up access will invariably take time. Malcolm Hurlston, chairman of the debt advisory charity Consumer Credit Counselling Service, said that given the limited number of loans the service was intending to make, it would not replace doorstep lenders and payday loans.[30]

In October 2010 the Government launched a call for evidence for the joint HMT/BIS Consumer Credit and Personal Insolvency Review. It was a wide ranging call for evidence that invited 'people to have a say on how the existing consumer credit and personal insolvency regimes might be improved'.[31]

Despite launching a wide ranging enquiry the government has a preference for how it will try to tackle the problems surrounding credit and personal insolvency. The call for evidence stated 'We will regulate where necessary, but our strong and shared preference is to promote more responsible corporate and consumer behaviour through greater transparency and competition and by harnessing the insights from behavioural economics. This is the best route, we believe, to ensuring people can get fair deals when they borrow and the right help when they get into difficulty with their debts.'[32]

It is a concern that government will be unwilling to further regulate this market, even when considerable evidence suggests that some high cost credit markets are not functioning effectively.

Why high-cost credit is a concern

There have been concerns raised by a wide section of civil society including citizens groups, charities, housing associations, MPs from all political parties and government departments as to the effect of the growing high cost credit market.[33] Indeed the OFT Review of High Cost Credit was 'launched because of concerns that consumers of high cost credit, including many on low incomes suffer from a lack of options when seeking credit, that the price they pay for credit is too high and that the recession is limiting suppliers' willingness to lend money'.[34]

The following is by no means an exhaustive list; it is merely to outline some of the main concerns that have been aired over the growing high cost credit market.

It increases inequality

A major concern is that the poorest individuals pay the highest price for credit. Indeed some argue that the UK's poorest pay the highest price for credit in Europe.[35] The high costs of credit have to be repaid from future income and out of

30 My Home Finance scheme a boost to excluded borrowers, The Guardian, 23.09.10, www.guardian.co.uk/money/2010/sep/23/my-home-finance-government-loan-scheme?INTCMP=SRCH

31 Consumer Credit and Persona Insolvency: Call for evidence, www.bis.gov.uk/Consultations/consumer-credit-call-for-evidence?cat=closedawaitingresponse

32 Managing Borrowing and Dealing with Debt, www.bis.gov.uk/assets/biscore/consumer-issues/docs/m/10-1185-managing-borrowing-call-for-evidence.pdf

33 See www.endlegalloansharks.org.uk/our-supporters or http://betterbanking.org.uk/our-supporters/ for a list of those calling for a cap on the cost of credit

34 Review of High Cost Credit: Final Report, OFT (2010), pp.4, www.oft.gov.uk/shared_oft/reports/consumer_credit/High-cost-credit-review/OFT1232.pdf

35 www.parliament.uk/edm/2010-11/660

36 For the most comprehensive review of inequality in the U.K see Hills, J. et al, (2010), An Anatomy of Economic Inequality in the UK: Report on the National Equality Panel, www.scribd.com/doc/25922592/How-Unequal-is-Britain-UK-the-definitive-report-Jan-2010

fixed budgets, thus exacerbating the already vast inequalities of income in the UK.[36]

High cost credit therefore has an effect on whole communities. Research for Leeds City Council conducted in 2004 reported that interest payments to home credit, or door to door, money-lenders alone were costing the local economy up to £9.5 million per year. This drain on the local economy was particularly concentrated in already deprived areas of the city. The National Equality panel recently found that the poorest 2.4 percent now have zero or 'negative wealth' I.e. their outgoings are larger than their incomes, 35 percent of those in zero or negative wealth lived in social housing.[37]

The Competition Commission found in 2006 that 'home credit customers were more likely than the population as a whole to be female, to be under 35, to have young families, to fall into socio-economic groups D and E, to live in a low-income household and to live in housing rented from a local council or housing association.'[38]

There are also clear demographic trends to those negatively affected by high cost lending and debt. Fair Finance, a social enterprise bank which offers loans and debt advice, has seen clear trends in those seeking its help. Seventy-five percent of them are women, 70 percent are single mothers, 80 percent are on benefits, 60 percent are minorities and 75 percent are currently borrowing from expensive lenders.[39]

In 2008, 45 percent of Citizens Advice Bureau debt clients were women, with men making up 37 percent and couples 16 percent. Over 20 percent were lone parents (the great majority of whom are female). At a Voices of Experience workshop held by the Women's Budget Group with women who have experience of poverty, debt was 'a huge issue':

> 'There was acute awareness that the poorer one was, the more it cost to borrow money. As one participant noted, "it is very expensive to live in poverty". Interest rates are extortionate, and the poor are much more vulnerable to unfair and demeaning creditors…It was seen as hard to get into work if one had debt, and particularly serious to lose work if one were in debt. In fact for some women, trying to work got them into debt, because childcare costs had to be paid up-front, and there were attendant costs of transport, clothing etc. One participant at the meeting was steeped in so much debt after starting work that she had to give it up'.[40]

High debt repayments affect the quality of life for those households in debt. The results are poorer diets, colder homes, rent, council tax and utility arrears, constraints on job seeking behaviour, and poor health, including mental health.[41] This suggests that there are long term negative effects of getting into debt, all of which make individuals more prone to future debt problems.

Our evidence:

The median income of those that we surveyed was £7,582 per annum, considerably below the UK average of just around £25,000.[42] The median debt of those surveyed was £1,200, equating to around 24 percent of their median income. Debt repayments took around 14p in every pound of tenants' income. 28 percent of those interviewed said they found their debts increasingly unmanageable.

Asked whether they had to go without necessities (like food and heating) to meet debt repayments, 5 percent said always, 10 percent said often and a staggering 47 percent said sometimes.

Related comments from tenants:
'only get by with help from my family'
'at the minute they [debts] are unmanageable because I don't have enough money to pay them'

Our survey suggests that for many on low incomes their debt means that many are going without necessities, this implies that borrowing and debt is making their situation worse rather than better and is potentially exacerbating inequality and social mobility.

It creates credit dependency

There is a concern that people are not truly free to make decisions about whether they should use high cost credit or even which product best suits them. This is for two reasons; firstly wages and benefits are not high enough to meet the costs of living so people are forced to use credit to supple-

37 Hills, J. et al, (2010), An Anatomy of Economic Inequality in the UK: Report on the National Equality Panel, http://www.scribd.com/doc/25922592/How-Unequal-is-Britain-UK-the-definitive-report-Jan-2010 pp.57 and pp.246

38 Home Credit Customers Pay a High Price, Competition Commission (2006), www.competition-commission.org.uk/press_rel/2006/apr/pdf/24-06.pdf

39 www.fairfinance.org.uk/static/BigIssue.pdf

40 www.endlegalloansharks.org.uk/archives/70

41 www.guardian.co.uk/money/2010/jul/21/debt-problems-impact-health and www.mind.org.uk/www.statistics.gov.uk/pdfdir/ashe1210.pdf campaigns_and_issues/report_and_resources/896_in_the_red_debt_and_mental_health

42 www.statistics.gov.uk/pdfdir/ashe1210.pdf

ment their income, secondly poorer households often experience financial emergencies.[43,44]

Research carried out by Paul Jones at John Moore University, shows that far from borrowing money to pay for luxury or non-essential goods, people on low incomes need credit just to get by. They know they are paying well over the odds for credit but have no choice but to pay the high prices charged. In this sense they are 'credit dependent'.[45]

A report by The New Economics Foundation summarises the problem of credit dependency:

> *'With the increase in consumer credit, products that provided finance for daily expenditure have increased dramatically. Increases in the cost of living were not matched by increases in wages and benefits, thus creating credit dependency among poorer households. This credit dependency can quickly lead to high levels of debt, and eventual over-indebtedness. Revolving credit and roll-over credit have greatly contributed to this development.'*[46]

A report by Consumer Focus this year also highlighted the dangers of the multiple use of payday loans. They conclude:

> '...findings suggest the availability of payday loans increases consumer ability to make ends meet but the gains diminish as use becomes more frequent'.[47]

Furthermore, Consumer Focus found that the impact of taking out a payday loan could be hugely negative:

> 'Some consumers, who were particularly indebted, seemed to have got into a cycle of having to borrow more and more in order to pay back their existing debt'[48]

Consumer Focus recommended that the government should limit the number of loans or rollovers to five payday loans per household per year. While this may be a necessary short term fix to help prevent vulnerable individuals from getting into unsustainable debt a greater exploration into the link between credit dependency due to low incomes and benefits must be undertaken by government.

Our evidence

When tenants were asked why they used high cost credit many of their answers suggested they were indeed credit dependent, that is, they did not have enough income to meet necessities so were forced to borrow from high cost lenders. Others were excluded from mainstream credit so were dependent on high cost forms of credit.

Related comments from tenants:
'don't know anywhere else to get it from...I've got no collateral'
'needed to borrow to pay off other debts'
'blacklisted due to debts some time ago'

When asked what measures would help them overcome financial exclusion the tenants rated increased benefits/wages highly, this suggests that the low incomes that the tenants are living on are leading to financial exclusion and credit dependency.

It exploits the poor & vulnerable

There have also been concerns raised that high cost lenders exploit the vulnerable position of the borrowers. We have already highlighted research that shows that people on low incomes need credit just to get by.[49]

The poor also pay for more credit. This is just one part of the poverty premium, a notional extra cost that people on lower incomes can pay for goods and services, compared with the cost that is paid for the same goods by higher-income families.[50]

The IPPR found in 2010 that 'poverty and job insecurity increases vulnerability to debt problems'. This may sound intuitive but it is low income families that are the most vulnerable to debt and a reliance on debt has increased their vulnerability.[51]

Consumer Focus last year found that almost 70 percent of payday loan users have a household income of below the mean UK average of £24,492.[52] Payday loan borrowers tended to be young adults, although on the whole they were not sub-prime (consumers with impaired credit ratings) and usually had bank accounts.

43 Church Action on Poverty, Paying Over the Odds

44 www.neweconomics.org/publications/doorstep-robbery

45 www.wip.smile.co.uk/images/pdf/access_to_credit_final_report.pdf

46 www.neweconomics.org/publications/doorstep-robbery

47 www.consumerfocus.org.uk/publications/keeping-the-plates-spinning Page 17

48 www.consumerfocus.org.uk/publications/keeping-the-plates-spinning Page 19

49 www.wip.smile.co.uk/images/pdf/access_to_credit_final_report.pdf

50 The UK Poverty Rip-off, Save the Children (3)

51 www.ippr.org.uk/publicationsandreports/publication.asp?id=726 (p 4)

52 www.consumerfocus.org.uk/assets/1/files/2010/02/Keeping-the-plates-spinning.PDF (p 19)

On the other hand typical pawn-broking customers tend to be women in their 20s or 30s, with children in low paid work or unemployed and receiving benefits.[53] The OFT also found that features of high cost borrowers include:

- a need for credit and limited inclination to search for the most suitable option
- lower than average levels of income and financial capability, and
- many instances of poor or no credit history.[54]

It was also acknowledged that for some consumers, high cost credit was the only form of borrowing available to them[55] Furthermore the OFT has found that consumers of high cost credit tend not to be effective in driving competition among suppliers because they have lower than average educational backgrounds, poor credit ratings, they were unaware of the options open to them, they tended not to shop around but valued flexibility. They also focused on weekly repayments rather than the total cost of the loans.[56]

Those on low incomes often need credit and often they can only get credit from high cost lenders. Furthermore 690,000 households in 2007/8 did not have access to a basic bank account.[57]

Our evidence:

When asked what measures would help them overcome financial exclusion the joint highest priority was having a basic bank account. This confirms that many of our sample were not in a position to shop around for the best price for credit, particularly since they are excluded from mainstream banking services.

When asked what measures would help them overcome financial exclusion the second highest priority was 'better job security', this supports other research such as that from the IPPR that job insecurity creates financial exclusion and debt problems.[58]

Related comments from tenants:
'ran out of money and needed food'
'just lost my job and on the dole...very stressful'
because I don't have enough money to pay them'

The terms of borrowing are not always easy to understand and consumers are subject to high pressure sales techniques

Consumer Focus found that although customers of payday loans were told the amount they would have to repay for each £100 borrowed and this was easy to understand the true cost of the borrowing it made it difficult to compare to High Street banking products which are often measured using APR.[59]

Consumer Focus also found that none of the interviewees said they were misled about the fees they would have to pay back on their payday loans, if they paid on the date agreed when they took out the loan. However, 'some thought lenders could be more upfront about explaining the scale of the repayments if they didn't repay the full amount on time, and others said lenders did not explain what would happen if they were unable to repay their loan on an agreed date.'[60]

Retail credit is often advertised as 'interest-free' but this can be misleading since it does not take into account that the bundled price may already include a premium.[61] For example Brighthouse is a white goods store and offer the sale of goods on 'hire purchase' terms. Thus Brighthouse will sell an ACER Platinum Laptop to a customer for £737.94 (vs. Typical High Street price – £599.00) paid for over 2 years at £13.99 per week using their credit deal it then costs in total £1454.96.[62]

Our evidence:

Asked whether they felt harassed by lenders; 6 percent of tenants said that they 'always' feel harassed, 17 percent said 'often' and 27 percent said sometimes. There does appear to be a noticeable correlation between tenants feeling harassed and accessing 'less mainstream' credit.

Only 9 percent of those interviewed said they were aware that the Courts can over-rule lending judged as unfair, implying that many consumers on low incomes were unaware of their legal rights.

Research in the 1990s suggested that companies may use high pressure sales techniques to target those in financial difficulty. Research produced by the IPPR in 2010 suggests

53 www.oft.gov.uk/shared_oft/reports/consumer_credit/High-cost-credit-review/OFT1232.pdf (p 21)

54 www.oft.gov.uk/shared_oft/reports/consumer_credit/High-cost-credit-review/OFT1232.pdf (p 5)

55 www.oft.gov.uk/shared_oft/reports/consumer_credit/High-cost-credit-review/OFT1232.pdf (p 14)

56 www.oft.gov.uk/shared_oft/reports/consumer_credit/High-cost-credit-review/OFT1232.pdf (p 23)

57 Financial Inclusion Taskforce: Fourth Annual Report on Progress Towards the shared goal for Banking

58 IPPR (2010) Strength Against Shocks

59 www.consumerfocus.org.uk/assets/1/files/2010/02/Keeping-the-plates-spinning.PDF (p 21)

60 www.consumerfocus.org.uk/assets/1/files/2010/02/Keeping-the-plates-spinning.PDF (p 21)

61 www.oft.gov.uk/shared_oft/reports/consumer_credit/High-cost-credit-review/OFT1232.pdf (p 20)

62 www.brighthouse.co.uk/display-product-large.asp?id=MP15ACPLA (16th May)

63 www.ippr.org.uk/publicationsandreports/publication.asp?id=726

this is still the case. It was not uncommon for the same salesperson to call both to sell and collect debt payments.[63] This of course is a particular problem for door to door lending and may be less of a problem for consumers obtain credit on the internet.

The high-cost credit market does not function effectively

We have mentioned that some argue that the UK's poorest pay the highest price for credit in Europe.[64] The OFT found through their competition analysis of the sector that the rates charged by payday lenders are high and price does not seem to be a primary driver of competition 'with suppliers attracting customers with the convenience and speed of the application process'.[65] In short, the high cost credit sector does not function effectively because customers cannot afford to shop around to drive down the cost of credit, they need emergency credit and find it from wherever they can.

This is a particular problem in the home credit sector where the market is highly concentrated with one large supplier in the market. The Competition Commission found in 2006 that 'prices were generally higher than they would be in an effectively functioning market to an extent that might be expected to be material for home credit customers, many of whom are on low incomes.' The level of excessive profit was calculated to be £75 million a year.[66]

The OFT has also found that the level of profits among pawn-brokers are higher than those that might be expected in a competitive market.[67]

Our evidence:

Whilst we did not partake in research into the levels of competition in the high cost credit market a very high 15 percent of tenants said they had used a pawnbroker in the last six months. Bearing in mind that the levels of profits among pawn-brokers are higher than those that you may expect in a competitive market, social housing tenants appear to be major consumers of a service which is extracting excessive profit from them.

This is particularly worrying as it may support previous research which suggests that customers of pawn-brokers are predominantly women in low paid work/unemployed (those on low incomes). These findings could imply that certain demographics such as social housing tenants are not using more competitively priced high cost credit such as payday loans. If we accept previous research that states that excessive profit is being made by the pawn-broking sector then we can see that this is extracting wealth from many social housing tenants.

The survey shows that tenants are using high-cost credit because they are experiencing financial emergencies. Consumers in this position are unable to drive down prices from the demand side and therefore there is an inequality of power between the consumers of high cost credit and the providers. This adds to already existing evidence that suggests that certain areas of the high cost credit market (home credit and pawn-broking) are uncompetitive there is growing evidence that the high cost credit market does not function as an effective and fair market.

Over half of the tenants that used high cost credit found that it was overall a negative experience. The 2010 OFT report into high cost credit highlighted the level of complaints from consumers was low. Our findings showed that 34 percent of those surveyed said that their experience was 'awful' and 18 percent described their experience as 'not good'. This implies that measuring levels of complaints from customers could be a flawed measure, and the low levels of consumer complaints could be hiding a greater unhappiness with high cost lending services.

Many social housing tenants continue to borrow from illegal loan sharks. Eight percent of tenants said they had used an illegal money lender in the last six months. This worryingly leaves tenants at the mercy of violence and extortion.

Asked whether they felt harassed by lenders; 6 percent of tenants said that they 'always' feel harassed, 17 percent said 'often' and 27 percent said sometimes. There does appear to be a noticeable correlation between tenants feeling harassed and accessing 'less mainstream' credit.

64 www.parliament.uk/edm/2010-11/660

65 www.oft.gov.uk/shared_oft/reports/consumer_credit/High-cost-credit-review/OFT1232.pdf (p 19)

66 Home Credit Customers Pay a High Price, Competition Commission (2006), www.competition-commission.org.uk/press_rel/2006/apr/pdf/24-06.pdf

67 www.oft.gov.uk/shared_oft/reports/consumer_credit/High-cost-credit-review/OFT1232.pdf (p 35)

5. A fairer credit system in a re-balanced economy

A fairer credit system requires a more balanced economy. This means an economy re-balanced away from a dominant financial services sector towards one with a more diverse economic base that is able to better meet the employment needs of all communities.

There is a compelling argument to be made that the political economy of the last thirty years can best be described as 'privatised' Keynesianism. While traditional Keynesian theory prescribed state financed deficit spending to increase demand, privatised Keynesianism increased economic demand through the debt fuelled spending of individuals, mainly poorer individuals.[68] This is the political economy underlying today's UK debt crisis.

In the 1970s, a number of factors including strong and well organised trade unions ensured that workers won a significant share of the national wealth for their wages, around 65 percent in all. Privatisation, globalisation, changes to trade union legislation and changes to working practices weakened the ability for workers to take a share of worker profits for themselves, so much so that today only 53 percent of national wealth goes to wages.

According to the TUC report 'Unfair to Middling'[69] the effect of a smaller share of wages going to workers meant:

> 'Those whose wages fell behind borrowed more than they could afford, contributing to the credit crunch. Average household debt was 45 percent in 1980 but rose to 157 percent in 2005. And the decline in wages was made up by increased profits – much of which was used for financial speculation rather than productive business investment, helping drive the UK's heavy reliance on finance and encouraging the over-investment that led to the crash.'

These structural economic problems have to be addressed if we are to find a lasting solution to debt financed growth. A new political economy has to find alternative sources of growth and job creation. It must ensure workers are empowered to obtain a greater share of wealth and wages must at least grow in line with inflation.

A long-term approach to tackling debt and financial exclusion, then, must incorporate measures to balance the economy more in the interests of people and communities; between sub-sectors with greater emphasis on non-financial services; and between credit providers to ensure fairer practice from top-to-bottom of the system.

A re-balanced economy and fairer credit

Economists at Tullet Prebon have calculated that six sectors - housing, finance, health, education, construction, and public administration and defence – account for 58 percent of the UK economy. All relied heavily on private or public borrowing over the past decade, with finance expanding by 123 percent, construction by 27 percent, health by 35 percent and real estate by 26 percent. The real output of the other 42 percent of the economy is 5 percent lower than a decade ago.

There is a message here which goes beyond the wrangling about the speed at which the public sector money tap should be turned off: Britain has a broken-backed economy. Growth in the years leading up to the crisis was, in essence, borrowed from the future and it is now payback time, as it is for all the other countries with unsustainable debt.[70]

Much of this is linked to the UK's unfair credit system that rewards those already with assets, who can borrow against them and support future investment in skills, education, better employment, higher incomes and yet more assets, while lower income households experience a 'poverty premium'[71] facing higher costs for gas, electricity and banking amounting to an average of £1,000 yearly. The Save the Children report demonstrated that a cooker bought for £159.99 from Argos would cost £405.00 repaid over 125 weeks from a 'sub-prime' credit shop like 'Brighthouse'. The report concludes, however, that despite the expense of such providers, and the high credit

68 www.clients.squareeye.com/uploads/compass/documents/CTP41KeynesianisamCrouch.pdf

69 Lansley (2009) Unfair to Middling

70 Elliott (2011) Guardian

71 Save the Children (2010) The Poverty Premium

Case study of debt: young, single person

Miss W was a vulnerable young person. She had come to the U.K as an unaccompanied minor, had communication difficulties, did not have any family in the U.K apart from her cousin who was also in a similar situation. Miss W had previously been supported by Social Services. She had over £5,600 in rent arrears of which £4,810 was from refused housing benefit.

Miss W was now feeling very low and exasperated. However, the Trident MAC provided her with full money advice and looked at ways in which to maximise her income. Miss W's aspirations were to be debt free, to be in work full-time work and not reliant on benefits to move to suitable housing. On investigating Mrs W's case, and liaising with the relevant departments within the Local Authority, Miss W , her social worker and Trident were able to obtain a full housing benefit backdate of £4,810 and set up a payment plan for Miss W to clear her personal rent arrears.

This meant that Miss W was able to move to new housing that met her needs, later to obtain full-time work and is now virtually debt free.

and repossessions common in the sector, they remain popular with low income households because of lack of access to better value mainstream alternatives.

Fairer credit responses by social landlords

Social housing providers have been involved in tackling financial exclusion for more than 100 years (Gulliver 2000, 2004, 2006). Early housing societies in the 1920s and 1930s set-up savings and loan schemes for example, in the 1960s and 1970s housing associations offered housing and money advice services, and in the 1980s and 1990s were in involved in 'Housing Plus' initiatives mainly to tackle unemployment and training (Gulliver & Morris 2011).

Today, housing associations invest annually £45 million in employment and enterprise schemes, £66 million in education and skills services, and £44 million in poverty and social exclusion services. Hundreds of people are employed in delivering these services. More than half of this investment by social housing providers comes from their own resources and the reminder from publicly-funded programmes (NHF 2008).

Many social landlords provide a range of financial inclusion services, or support services provided by community partners; including assistance with opening bank accounts, community development finance initiatives, credit unions, financial inclusion awareness and literacy training, fuel poverty advice, household insurance schemes, pay point services, rent deposit schemes, white goods and furniture re-use as well as debt and money advice (sometime slinked to rent arrears recovery teams).[72]

The NHF's '*MyHomeFinance*'

A recent innovation in taking financial exclusion comes from the National Housing Federation. '*MyHomeFinance*' is a social enterprise financial services organisation with all profits put back into the business so that more people can be helped to save and borrow. The service is aimed at those who can't access high street lending and who have to rely on loans from doorstep lenders and loan sharks who charge extortionate interest rates.

The service helps people, mainly housing association tenants, to access credit at a more affordable rate, open a bank account and help them save for the future. By building up their repayment history with My Home Finance, customers will be more able to access mainstream financial services in the future.

MyHomeFinance was set up by the National Housing Federation. It is supported by the Government, Royal Bank of Scotland, Wates Giving and many housing associations in the West Midlands, including Trident which invested £25,000 in its creation.

Trident Inclusion's Money Advice Centre

Trident Inclusion is part of the Trident Group of housing associations and social businesses, which

72 NHF (2008) The Scale and Scope of Housing Associations Activity Beyond Housing

Case study of debt: young, single woman

Miss C is young woman, who had financial difficulties since her Job Seeker's Allocwance had stopped, and her Housing Benefit had been suspended because she had become a full-time student on an A-level course. Miss C was living alone and was identified as particularly vulnerable suffering severe depression and had made several attempts at suicide in the past. She became a Trident tenant after her father gave her an ultimatum: either stop taking anti-depressants or move out.

Miss C was contemplating quitting her studies as she did not see any other way of securing her finances, having already been turned down for any financial assistance through her college. Trident helped with her application for Employment Support Allowance benefit and asked that it be backdated for the maximum 3 months. The benefit was backdated paying a lump sum of £640 which enabled her to continue her studies and get up to date with her utilities payments which had remained outstanding for two months. Her Housing benefit has also been reinstated and her arrears of £902 have now been cleared.

has a fifty year history of meeting housing and community needs in the Midlands. Inclusion is a new vehicle created to provide services that help excluded communities, especially around finance and tenancy support, in the region. Inclusion is due to become fully operational in 2011 and is currently seeking charitable status.

Social and financial exclusion are complex and require joined-up approaches to optimise impact on target communities - that's why Trident Inclusion's approach is part of the Trident Group's 'third pillar' of wider social investment, enterprise and innovation.

The organisation's services include income management, money advice and debt prevention, advise on business start-up, market intervention including mortgage rescue and housing 'buy-backs', affordable credit, improving opportunities and offering pathways out of poverty, and providing better home support through provision of services such as furnished lettings, handyperson services and environmental clean-up.

The Trident Money Advice Centre helps 200-300 clients each year with advice on Welfare Benefits, debt, budgeting and dealing with lenders/creditors. This year, Welfare Benefit advice alone increased tenants' collective incomes by £312,000 and Trident has helped deal with £802,000 of tenants' debts.

What tenants want

As charts (5) and (6) illustrate, the social tenants in the survey clearly see where their priorities lie in actions to relieve their financial exclusion by the wider economy and by the state. They also want social landlords to provide a wider range of services to alleviate financial exclusion; especially provision if furnished housing and help with employment, training and short-term loans at reasonable interest.

There is a wider issue in social housing[73] which is currently being debated around transfer of assets to tenants and their communities and redressing wealth inequalities with home ownership. Such policies, if enacted, could have long-term, beneficial effects upon relieving growing financial exclusion in the social housing sector.

73 Gulliver K. & Morris J. (2011) A New Deal for Tenants. HCI Leach M. et al (2011) At the Crossroads: A Progressive Future for Housing Associations. Respublica

Chart 5 – Tenants' priorities to reduce the extent of their financial exclusion

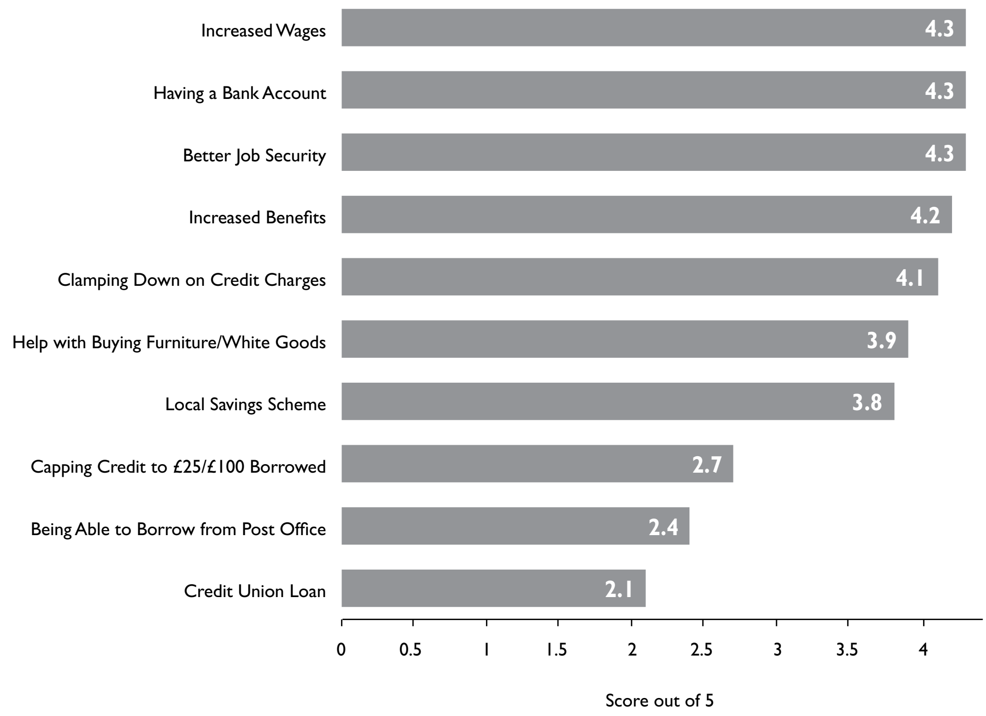
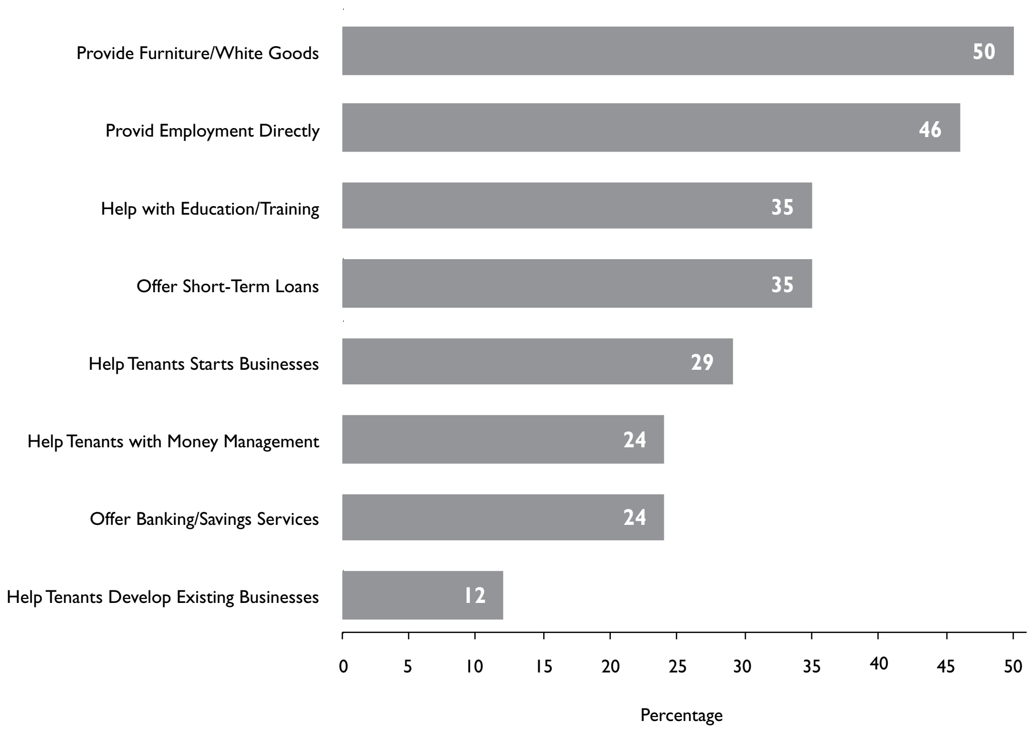


Chart 6 – Tenants' priorities for help with financial exclusion from social landlords



6. Conclusions and policy recommendations

To tackle the challenge of personal debt comprehensively in the UK, there has to be a broader conversation about the UK's political economy and the reliance on private debt-fuelled growth. This topic is too broad to be covered in depth in this report but some of the conclusions and recommendations itemised below are a good starting point.

General Policy Recommendations

1. **The Government should examine whether income levels are adequate to avoid credit dependency.** There is evidence any incomes below that of a 'living wage'[74] are forcing individuals into credit dependency. When asked what measures would help tenants overcome financial exclusion the third highest priority was increased benefits. Government must also explore whether current minimum benefit levels and minimum incomes are adequate to avoid credit dependency.
2. **This Government should implement a universal right to a basic bank account.** Twenty-five percent of tenants had used an authorised overdraft and 20 percent of tenants had used a credit card in the last six months. Therefore policies aimed at tackling financial exclusion must take account of the relationship between mainstream and less mainstream credit options. When asked what measures would help tenants overcome financial exclusion the joint highest priority was having a basic bank account.

   Banks should market their basic bank accounts more effectively and ensure that those who make enquiries are told about them. Specifically, if bank customers are declined a bank account, they should be automatically offered a basic account (provided they have the requisite minimum ID and so forth).
3. **The Government should look to pass a similar legislation to the U.S Community Reinvestment Act.** A Community Reinvestment act would encourage commercial banks and savings associations to meet the needs of borrowers in all segments of their communities, including low- and moderate-income neighbourhoods. Despite the availability of high cost credit options some 31 percent of tenants interviewed still said they found it difficult to obtain credit. Any high street bank operating in the U.K should be fulfilling their obligations to wider society and this would ensure more affordable credit is available to all.
4. **The government should ensure that there is an affordable credit scheme of sufficient scale to become a genuine, locally based alternative accessible all across Britain.** Connecting up the credit union movement and post offices, which would allow the integration of both services could certainly play a valuable role. A one-off investment would be needed to provide the common back-office platform that would allow the technical integration of the two services. Around half of the tenants interviewed were interested in using the NHF's *'MyHomeFinance'* products. Considerable initial interest in this scheme suggests that these services could be beneficial to many social housing tenants.
5. **The Government should look again at giving regulators new powers to define and ban excessive interest rates in non-competitive sectors such as home credit and pawnbroking.**[75] As many tenants have trouble stretching their incomes to the end of the week and a significant minority have to rely on credit they should be properly protected from exploitative costs. The government should help protect the vulnerable from getting into greater financial difficulties and exacerbating wealth inequalities. There is very little proof that it is impossible to lend at fair prices to people on low incomes, Community Development Finance Institutions and Credit Unions have been doing it for decades and have avoided high default rates. Fair Finance, a newer affordable lending institution has also proved it can be done.[76] The tenants surveyed showed a preference for more traditional high cost borrowing such as pawnbroking. The tenants also received a median income well under half the UK average. This

74 www.citizensuk.org/campaigns/living-wage-campaign/

75 It would be up to all stakeholders to work with the government to determine what an excessive rate is and how to calculate the cap. There are numerous examples of different usury laws across Europe and in the United States

76 Gibbons/Mccartney 19

supports previous research that suggests that the 'typical' pawn-broker customer is in low paid work or unemployed.

6. **Lenders in uncompetitive markets should pay a levy on their excessive profits every year until the market become competitive.** The OFT has acknowledged that the pawn-broking sector (amongst others) is uncompetitive and it is making excessive profits (predominantly from women in low paid work/unemployed). Any tax raised should be ring-fenced for investment in financial education. It should be used to fund a range of organisations providing debt management counselling or financial literacy services. Counsellors could give one-on-one sessions to families to help them get back on their feet by negotiating with creditors, helping them to navigate the support to which they are entitled and identifying how best they can live within their means.

   Nevertheless we should be mindful that just as financial mis-education is not the cause of all debt problems, it therefore cannot be the silver bullet. For example most believe that saving is important but are unable to do so because of their low income levels.

Recommendations for social landlords

1. **The National Housing Foundation, supported by member housing associations should oversee an expansion of the '*MyHomeFinance*' initiatives beyond the Midlands and ultimately to be a national services accessible to all tenants.** Tenants from the surveys would clearly welcome this, although many were unaware of the service despite Trident being a key supporter of the scheme. More focussed marketing of the scheme to those tenants who most need it is desirable.
2. **Social landlords should become more involved in developing bespoke money advice and debt counselling services and community finance initiatives to their tenants, or support existing services now that the local state is retrenching and withdrawing support for such services.** Again, many social landlords already offer a range of such services, or partner services provided by others. These services include assistance with opening bank accounts, community development finance initiatives, credit unions, financial inclusion awareness and literacy training, fuel poverty advice, household insurance schemes, pay point services, rent deposit schemes, white goods and furniture re-use as well as debt and money advice (sometime slinked to rent arrears recovery teams).[77]
3. **Social landlords, and there two main representative organisations the NHF and the CIH, should develop a greater range of pooled services and a knowledge bank to support comprehensive roll-out of financial inclusion initiatives across the country.** To some extent this is happening already with both the NHF and the CIH supporting good practice and engaging with the mainstream banking sector to create partnership initiatives.
4. **The use of furnished tenancies using high quality (as well as recycled) should become more widespread across the social housing sector.** Tenants would welcome the provision of furniture and white goods (50 percent state that this is their top priority) since this is the primary reason for going into debt. Such provision also helps create more sustainable tenancies and has beneficial effects on the 'bottom-line' of social landlords in terms of lower costs associated with vacancies and rent arrears.[78]
5. **Social housing tenants must be enabled to own and manage assets related to their housing without moving into unsustainable home ownership.** A range of research[79] has identified the lack of assets controlled by tenants as a key inequality between tenures (and specifically between home ownership and social housing) and proposed ways for tenants and communities to obtain greater control over these assets.

77 NHF (2008) The Scale and Scope of Housing Associations Activity Beyond Housing

78 Gulliver (2002) Furnished Tenancies in the UK. Housing Corporation

79 Gulliver K. & Morris J. (2011) A New Deal for Tenants. HCI Leach M. et al (2011) At the Crossroads: A Progressive Future for Housing Associations. Respublica

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Appendix – research methodology

Review of literature

The research included a review of key literature around debt, financial exclusion and low income. The review also drew upon the End Legal Loan Sharking Campaign run by Compass, including discussions with organisations involved in the campaign.

The survey approach

The interview survey undertaken by the partners sought to explore aspects of financial exclusion within the social housing sector, including debt levels, economic activity and propensity to save, as well as seeking tenants' views on how social housing providers could help alleviate financial exclusion among their tenants.

The survey approach enabled both a statistical analysis and recording the comments of tenants in their own words. These analyses were supplemented by some 'human' case studies.

The survey covered:

- the household characteristics of the tenant group;
- the economic and financial circumstances of social housing tenants;
- the nature and extent of debt;
- wider financial exclusion issues;
- financial and support services tenants would like to receive from their social housing landlords, including work already underway by organisations such as Trident Inclusion in tackling money and debt problems;
- tenant case studies.

A sample of 252 tenants of the Trident Group was interviewed over the period 19th November to 17th December 2010. Interviews were undertaken by market research company M-E-L Research Limited, which is a partner organisation of the Human City Institute (HCI), under the Code of Practice of the Market Research Society. HCI undertook analysis of the survey results.

Interviews were based upon a questionnaire containing 44 questions and 14 'showcards'. Questions were mainly multiple choice/'closed' although a few were open-ended to provide interviewees with an opportunity to state their views in their own words.

The survey was intended to provide a snap-shot of debt and financial exclusion among tenants of a typical social landlord in Britain's second city. In spite of this, no claim is made for the sample being representative of the social housing sector overall. That having been said, the profile of tenants is relatively typical of the sector, especially with regard to economic activity and financial circumstances, although income levels are lower than average and the number of young people and BME tenants is above average.

The Trident tenant profile was also chosen because it is largely similar to the overall social housing tenant profile in the Midlands and includes working and non-working tenants, key workers, previously homeless households, those with disabilities, and fully retired tenants.

Interviewed tenants were chosen randomly from Trident's estates (mainly in Birmingham) plus around 50 in other Trident schemes. The sample size of 252 constitutes 1 in 3 of all tenants in the sampling frame.

Case studies

Case studies of debt were taken from the files of the Trident Money Advice Centre in the Midlands which helps Trident tenants and others in the community experiencing debt and money problems. The MAC is part of Trident Inclusion, a special purpose vehicle within the Trident Social Investment Group.

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