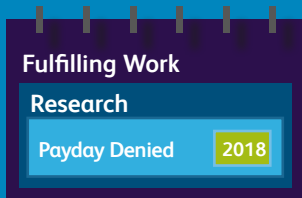




# The Lived Experience of Declined Payday Loan Applicants in Glasgow





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The Carnegie UK Trust works to improve the lives of people throughout the UK and Ireland, by changing minds through influencing policy, and by changing lives through innovative practice and partnership work. The Carnegie UK Trust was established by Scots-American philanthropist Andrew Carnegie in 1913.

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### **Toynbee Hall**

Toynbee Hall, founded in 1884, is a community organisation that pioneers ways to reduce poverty and inequality. Based in the East End of London, we provide free advice and support services which are all geared towards tackling social injustice and improving financial health. Our research looks at communities and groups suffering from financial exclusion, helping us to pilot new ways to deliver financial inclusion services and share our learning with partners and policy makers.

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This report is printed on paper that is FSC certified.

# Introduction

This report is an addendum to the report by the same authors ‘Payday Denied: Exploring the lived experience of declined payday loan applicants’.

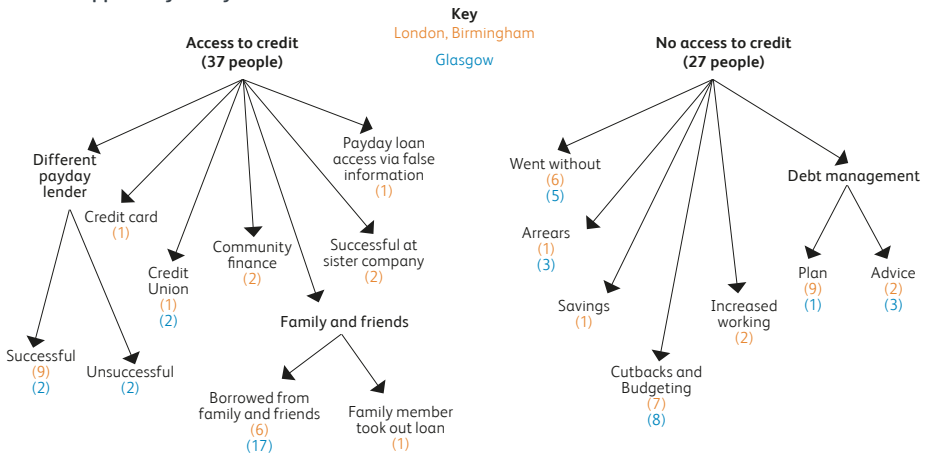
The research was commissioned by Barrow Cadbury Trust and Carnegie UK Trust.

The research involved interviews with 80 former payday loan borrowers who had been either self-excluded or denied a subsequent payday loan. Forty of these face to face interviews were conducted in Glasgow between February and April 2018. The report explored their lived experience of being denied credit in a UK wide context.

The results which are detailed in the main report indicate that borrowers who were denied credit undertook a range of actions as a result, often quite complex, involving both seeking credit and altering their behaviour.

The majority of people still sought credit from another source. In Glasgow they particularly did so from friends and family. For a significant number of those people who borrowed from friends and family there were additional issues

## Declined applicant journeys



raised around their self-esteem, and erosion of social capital which made this a more nuanced issue than might be initially imagined.

Exploring the lived experience of declined payday loan applicants gives us a deeper understanding of the behaviour of low to moderate income borrowers since high cost regulation was (rightly) tightened after the FCA took on regulatory responsibility for it in 2014.

Due to the number of participants in our research the findings are indicative

rather than exhaustive. The sample size was not large enough to support testing for statistical significance. Instead the findings provide deeper and more specific insights to complement existing quantitative data on the experiences of declined payday loan applicants.

This short briefing provides a deeper dive into the Glasgow findings.

First, we highlight the actions of borrowers after their application for a payday loan was declined. Second, we examine the key themes that emerged from the research.



# Declined Payday Loan Applicant Actions

- In Glasgow, declined payday loan applicants we interviewed typically took one 'action' in response to being unable to access credit. In the UK, declined payday applicants typically took several actions to deal with this situation.
- The most frequent action people in Glasgow took after being declined for a payday loan was to seek access to credit from another source (23 out of 40 declined applicants).
- The majority of those we interviewed seeking access to credit borrowed money from friends or family (17 out of 40 declined applicants).
- No declined applicants used mainstream bank sources of credit (for example, credit cards or overdrafts).
- Two declined payday applicants were successful in accessing a payday loan from another payday loan company.
- Two declined payday applicants were unsuccessful in their second attempt to access a payday loan at a different lender.
- Two declined applicants borrowed from a credit union.
- Only a handful of declined applicants were aware of Glasgow's social lenders, despite there being over 30 credit unions and a well established CDFI, Scotcash, that has operated for over a decade.
- These actions signal to us that more borrowing options were preferable to declined applicants than managing in other ways. This strengthens the case for appropriate, affordable borrowing options for low and moderate income households throughout Scotland.
- It identifies the acute need for better marketing and highlighting of social lending alternatives (Glasgow's social lenders were known to only a handful of interviewees)
- It also shows the scale of the challenge for the non-credit alternatives publicising and gaining interest for their solution (for example, flexible rent payments or request to pay options).

# Key Themes

The following themes emerged from the research in Glasgow which highlight the different impacts and coping strategies that people employed when unable to access a payday loan.

## 1. Family, Friends and Resourcefulness

- Declined applicants were extremely resourceful, adopting a number of coping strategies to resolve their difficult financial situation.
- Such strategies included; negotiating bills, budgeting, saving, or seeking debt advice.
- We found evidence of family and friends donating food shopping or sharing meals to declined payday applicants so that money could be prioritised for household bills. For example, as Kathy explains:

**“I’ve never been to the stage where I’m desperate for something to eat because somebody will always say I’m doing this or I’m doing that, come to me and I’ll go [to their house for dinner] and it gets me by enough. But for this day and age, it’s a bit shocking.”**

(Kathy, 50s, employed part-time)

- Family and friends were often a key resource for declined applicants. Help included providing informal loans and signposting to advice and support.
- However, borrowing from family or friends can be a negative experience as many interviewees do not wish to burden others who may not be able to help and feel embarrassed about their financial situation.
- One example was Gwyneth who borrowed from her family for an unexpected expense. Gwyneth needed to borrow £100 for a vet bill and had to borrow from her mother-in-law, a pensioner on a low income. Gwyneth was embarrassed that she and her husband could not afford this and had to ask for help, as any spare money they’d had had been spent on Christmas:



“We ended up asking my mother-in-law if we could just borrow a little bit extra at that point in time and we paid her back ... having to actually go to her and say ‘Any chance we could borrow that wee bit extra’, but it’s just because of Christmas and obviously all of the money then had been spent on shopping, presents and all that kind of thing. So there wasn’t really that much left over and luckily she did give us that on that occasion, thankfully. ... I mean, she’s a pensioner, she’s not got loads of extra money.”

We’re [a couple] both working, we shouldn’t be asking for money off a pensioner. It sort of doesn’t sit well with you, but at the end of the day, if an emergency crops up. And she was quite happy to give to us, you know. But you just don’t like to have to go and ask.

Because you feel like you should be managing your money better, so that if an emergency happens, then you have got some back up there. But it’s just not always possible to have that, you know.”

(Gwyneth, 40s, employed full-time)



## 2. Mental Health and Wellbeing

- We found that being declined for a payday loan had a significant impact on many people’s mental health and wellbeing.
- Tamsin explained how having her payday loan application rejected made her feel:

“It makes you a bit paranoid because it does make you think, ‘Oh, is there something on my credit file?’ It does make you panic a little bit. I don’t know. You do get a feeling like they do know, but they’re either not allowed or they don’t want to tell you why. I’m not really sure. And I said, ‘Well, what can I do if I wanted to come back to you?’ They say, ‘Oh, if your circumstances were to change.’ And I said, ‘Well, what circumstances?’ Try and question them roundabout and see if they’d go, ‘Oh, if you change this, then you’ll get it.’ Then I could figure out why. But they were just like, ‘Oh, if your bills go down or your income comes up or your credit file score increases, then come back to us.’”

(Tamsin, 30s, employed full-time)

- The different impacts of being declined credit meant that some were unable to purchase essential items such as food, pay for bills and provide for their family.

- Whilst family and friends were an important resource for many of the people we spoke to, some did not have that support network.
- There was an unseen “cost” of relying on family and friends for declined applicants, in terms of the impact this had on their social capital and self-esteem. People told us that they were often hesitant to ask for help but their situation was often desperate and felt that they had no alternative.
- People often felt ashamed in asking for help and some kept their financial situation to themselves. These feelings could result in social isolation and the financial situation worsening.
- Harry explained the different impacts of being on a low income and the constrained choice environment when unable to access mainstream sources of credit or payday loans:

“It affects your health you know what I mean, because it affects your reputation because you’re having to go to people and ask people for money because you know that the banks won’t give you anything because you’re signed up for it. ... It affects your mental health in terms of you feel you’ve not got any money, you can’t get money and then you have to pay it off, and then it’s just, it’s a vicious circle and it’s not good for your health in terms of your mental

health, you have to work extra because you need to pay it off. You have to go to your boss and ask him for overtime. So you’re a bit desperate in terms of your finances. You don’t enjoy the money so to speak, like if you get a normal loan like a loan to the bank. Say you’re getting four or five grand you can enjoy that because you know obviously that you’re going to pay it off every month. Well this one you have deadlines and you have to pay off this or you have your bank raided and stuff like that, so it’s stressful.”

(Harry, 30s, employed full-time)

### 3. Life on a Low Income and Demand for Credit

- We found that inadequate wages and benefits as a result of precarious employment can sometimes necessitate credit, even for those working full-time.
- We also highlight that the use of credit for essential items (for example, food, utilities, travel to work) is due to broader structural issues of inequality rather than of individual agency.
- Financial education is often cited as a potential solution to help address perceived issues of individual financial management. However often these issues are deeper than simply addressing budgeting or saving. There were issues around welfare benefit entitlement as some people lacked knowledge of benefits or support, they may be entitled to.



- For example, Rae needed and benefitted from more direct benefits advice intervention and for there to be an agency on hand to determine her specific requirements. This was because Rae and her family experienced several critical life events within a year which had serious financial implications on their income. Rae struggled to deal with the increasingly difficult financial situation so went to seek advice which had an enormous impact on their financial situation:

**“ My [child] has got special needs so we didn't even realise that we were entitled to money. It wasn't until we went to the Citizens Advice for help on other things that they pointed out that actually, my son was entitled to like DLA [Disability Living Allowance] money. So a lot of the kind of things were then put in place so money was quite comfortable. ”**

(Rae, 30s, employed part-time)

- In this research, the demand for credit remains significant.
- Mainstream finance was not an option for the people who participated in our research as a result of their poor credit history.
- We found no evidence of illegal moneylending activity but some people we spoke to said that they knew where that operated in their community.

- There is a clear identifiable need for affordable credit alternatives yet ethical alternatives are largely unknown.
- The two people we spoke to that were members of a Credit Union were very positive of the service and affordable loans that they offered.
- For example, Sam shared her experience of being a Credit Union member and how they helped her flex her finances in a family emergency:

**“ I've got savings with my credit union ... I had to fly down to London once because there was a family member taken ill and when I went to the credit union, and ... she said, what we will do, instead of you paying your monthly payment, she went, you can miss that but don't touch your shares. So, if you miss that, there'll be a wee bit of interest on it. That's exactly what I'd done. But I had a wee bit of savings anyway. I think I had about £80 or £90 in savings, so between that, and she let me away with my loan, because they always advise you, don't hide from us. We're here to help. This is why we're here. They're brilliant, absolutely tremendous. ”**

(Sam, 60s, employed part-time)

## 4. Responsible Lending

- Some declined payday loan applicants were concerned that they could still access payday loans from other payday lenders after they had been declined by another lender.
- For example, Neve thought that the High-Cost, Short-Term Credit [HCSTC] regulation should be universally applied, and rules should not be open to interpretation:

**“I think I would probably have got another loan but I think that’s really bad. I think if one company declines you, all should decline you. But obviously, we know they all have different kind of rules, but they should all go by the same one.”**

(Neve, 20s, employed full-time)

- Another example of this is David who was declined an online payday loan. However, they contacted him regularly to see if his financial circumstances had changed and if he would like to reapply for a payday loan:

**“When you were declined, were you told not to reapply for a loan from them?”**

**No ... they sent me an email the very next day and actually have sent me emails since I did it eight months ago saying, “You may be eligible today. You may be eligible today,” so they’re wanting you back ... So, it’s constant trying to get you back in.”**

(David, 30s, employed full-time)

- People we spoke to recognised the legacy of taking out a payday loan on their financial future:

**“It doesn’t manage your finances, it helps you, it’s a short term solution ... but it’s a disaster because you can’t really get a mortgage, you can’t get anything in terms of good debt, good debt so to speak and it affects you buying stuff in shops and stuff like that, hire purchase and stuff.”**

(Harry, 30s, employed full-time)

- Borrowers and declined payday loan applicants we spoke to think that there will be a significant impact on their finances from payday loans for a long time.



# Summary of Key Findings

Our research in Glasgow found that:

- Most low-income households we spoke to who previously used payday loans are now denied them.
- The majority of households were relieved that they were unable to access payday loans due to the wider, long-term, detrimental impact on their lives.
- Low income households had a number of coping strategies as a result of being rejected. However, many of these strategies appeared precarious and unlikely to be sustainable, long-term solutions.
- Households displayed a lack of knowledge of, alternative social lenders, including Credit Unions and CDFIs
- Schemes promoting payment flexibility, to help people avoid credit, need to be more visible.
- Participants we spoke to were often unaware of free, independent debt advice agencies and how to access these.
- There needs to be greater affordable borrowing options for low and moderate-income households.



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