Follow Up Evidence

Communities, Equality and Local Government Committee follow up on the Financial Inclusion and Impact of Financial Education report

from the Money Advice Service

November 2012

Joyce Watson: I will move on to affordable borrowing—or unaffordable borrowing, as is the case—with the growth of the pay-day loans market and the demands for its particular services. It is something that we have looked at, and we would like to know your opinion on the impact that the growth of the pay-day loans market has had on the demands for your particular services.

Ms Phillips: Pay-day loans, specifically, are a particular market. Perhaps I could speak about the credit market in general. One of the things that we, as an organisation, say is that if people need to borrow money there needs to be an informed choice. Whether it is face to face, online, or via telephone, we are trying to work towards getting people to know what questions they need to ask so that they know how much it will cost, how long it will take, and whether or not they can pay back the payments. The idea is that if someone has no other choice but to go for a pay-day loan, which is sometimes the case, they go into that fully informed of its costs, whether they can pay it back and whether it is the only option open to them or whether there is somewhere else they can go to, be that a credit union, Moneyline Cymru or any other loan.

One of the things that we find with the pay-day loans is that people take out a short-term loan and cannot then pay it back, and so the costs start increasing dramatically, and they end up borrowing to pay back what they borrowed initially. That is where the cost and the issues greatly impact on any advice service, whether it is preventative or debt related. I do not have specific figures about how many pay-day loan issues have been brought to the Money Advice Service, but I will look to see whether we can find that information for you.

Joyce Watson: It would be useful if you could. Another question—no, that is it.

Follow up answer:

Our face to face money advice (prevention) and our telephone line do not currently collect data that will tell us if there was specifically a payday loan included in the session.

In regards to our debt work, while we collect total debt outstanding for our clients we don't break that down by type of debt however we are currently completing research looking at the performance of the projects over the first few months of our management and this research does look into debt type and had payday loans as a specific data point. The data is unweighted however so will only be indicative. We will be happy to share this with the Committee once it has been made available.

However, last year - in preparation for us becoming the coordinator of debt advice across the UK - London Economics conducted work for us looking at the composition of credit markets. As part of this they analysed a report that BIS had commissioned from YouGov in 2009/10, which showed that payday loans accounted for 0.5% of all unsecured credit commitments. In the context of the ONS household debt figures from 2009 this equates to £1.1bn – similar to the research done for Consumer Focus.

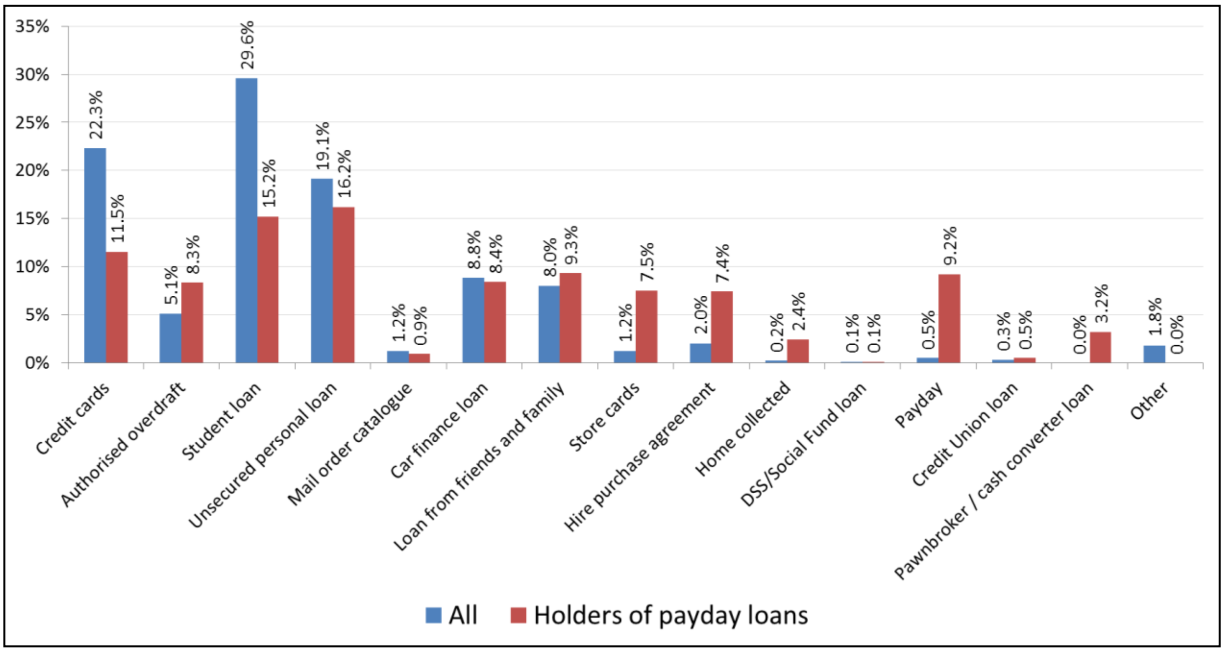
However the payday loan data cited in BIS research refers to all unsecured debt, whether or not someone has a payday loan and therefore masks the true scale of the impact of payday loans amongst those that use these products.

Further analysis of the structure of unsecured debt amongst those people that use payday loans shows that almost 10% (9.2%) of their unsecured debt is accounted for by payday loans.

So whilst in total payday loans have a small share of total unsecured debt, amongst its customers it is a significant component of their debts, greater than store cards and authorised overdrafts. Below is the full further breakdown that London Economics conducted for us on the YouGov data from 2009/10.

Table 1. Share of value of different types of debt in total unsecured debt

	All	Holders of payday loans
Credit cards	22.3%	11.5%
Authorised overdraft	5.1%	8.3%
Student loan	29.6%	15.2%
Unsecured personal loan	19.1%	16.2%
Mail order catalogue	1.2%	0.9%
Car finance loan	8.8%	8.4%
Loan from friends and family	8.0%	9.3%
Store cards	1.2%	7.5%
Hire purchase agreement	2.0%	7.4%
Home collected	0.2%	2.4%
DSS/Social Fund loan	0.1%	0.1%
Payday	0.5%	9.2%
Credit Union loan	0.3%	0.5%
Pawnbroker / cash converter loan	0.0%	3.2%
Other	1.8%	0.0%



For example, for all people credit cards make up 22.3% of unsecured debts but for those people who use payday loans, credit cards only make up 11.5% of their unsecured debts. Similarly while for all people payday loans only make up 0.5% of unsecured debt, for those who use payday loans they make up 9.2% of their debt.

Whilst these are significant numbers, trading statistics of market share can also the true issues of payday loans namely:

- the way in which the amounts owed on these products grow compared to other forms of unsecured borrowing given their much higher interest rates
- the intense recovery practices of some payday lenders – highlighted by the OFT recently, which can have a significant impact on the emotional well-being of those in arrears and their families – further reducing a customer's ability to cope with their situation

Although this is not our organisation, the Committee members may be interested to know that National debt charity Consumer Credit Counselling Service (CCCS) report having seen a dramatic rise in the number of people seeking its help who have multiple payday loans. Over 2,000 of its clients this year have had five or more payday loans, a three-fold increase from 716 for the whole of 2009. At the more extreme end of the scale, 173 of those who sought its help in 2012 had ten or more payday loans while only 42 had this number in 2009.

The average amount owed on payday loans by those seeking its help is rising too, up from £1,187 in 2009 to £1,458 in 2012.

CCCS (now renamed to StepChange Debt Charity)has seen a general rise in the number of people seeking its help with payday loans, going up from 6,491 in 2009 to 17,414 in 2011. So far in 2012, 16,467 have contacted it for help with payday loans.

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