



Critical

R E S E A R C H

TEN-16-075. PRICE CAP RESEARCH

Summary Report

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1. Introduction

1.1 Background

Prior to April 2014, providers of High Cost Short Term Credit (HCSTC) were not regulated by the FCA and were instead covered by regulations stipulated by the OFT under the Consumer Credit Act. Largely, these firms were what used to be called 'Payday Lenders': that is firms offering very short term loans with a high interest rate as a stop gap for consumers until payday.

When the FCA took over regulation of consumer credit firms, including HCSTC providers, all firms carrying out regulated consumer credit activities were brought into the FCA's regulatory regime, and additional regulatory measures were introduced in order to reduce customer detriment whilst providing suitable choice for consumers, in a competitive market. These included new requirements for risk warnings on financial promotions, restricting the use of continuous payment authorities and limiting the number of times a loan can be rolled over to twice. Due to concerns about the impact on consumers of the cost of HCSTC loans, the Government introduced a duty on the FCA to put in place a cap on fees and charges for HCSTC loans to protect consumers from excessive charges.

The "Price Cap" rules, introduced in January 2015, ensured a limit to the amount of fees and interest a consumer would pay, in particular if they were unable to meet repayments. Consumers cannot be charged more than 100% of the original loan value in fees and interest; there is a £15 cap on default fees; and, an initial cap of 0.8% interest per day cannot be exceeded.

Whilst these measures are designed to protect consumers from high charges, it does mean that more people may become ineligible for loans of this nature. Potentially many consumers therefore might seek loans elsewhere, possibly even extending to illegal money lenders. For this reason, and to check for other unforeseen consequences, the FCA committed to conducting consumer research to establish the impact of the price cap. This report presents the findings of that consumer research.

1.2 Sub-population groups

Three populations were defined, as follows:

- Group 1 (declined). Consumers from Group A¹ who applied for a payday loan and were declined from May 2016 onwards (and were not accepted for a payday loan after this date)
- Group 2 (accepted). Consumers from Group A who applied for a payday loan and were accepted from May 2016 onwards
- Group 3 (former) – Consumers from Group B² who used to use payday loans between January 2016 and April 2016 but have not applied since May 2016.

1.3 Technical details of the survey

Please refer to the separate technical report for details of the how the survey was designed, including sampling and weighting. In this report the results quoted are weighted and “Don’t know” is included as a substantive answer (results are *not* routinely rebased to exclude this option).

¹ Group A, Recent Applicants. Those applying for a loan between 01 May 2016 and 31 October 2016, regardless of the outcome of that application.

² Group B, Former Borrowers. Those successfully applying for a loan between 01 January 2014 and 30 April 2016, who have not applied for a loan since then.

2. Profiles of payday loan user groups

2.1 Demographic profile: Group 1 (declined)

Key attributes of Group 1 are:

- Aged nearly 33 and fairly even mix of men and women
- Renting privately or social housing, a smaller proportion living rent-free
- Working full time, but c. 20% not working
- A third are in a household that receives benefits
- One in five are having real financial difficulties; a quarter have no issues
- Have an average debt of c£3,700
- Do not claim to understand credit scores very well

2.1.1 Age and gender

Group 1 customers are typically in their twenties or early thirties and a mix of men and women.

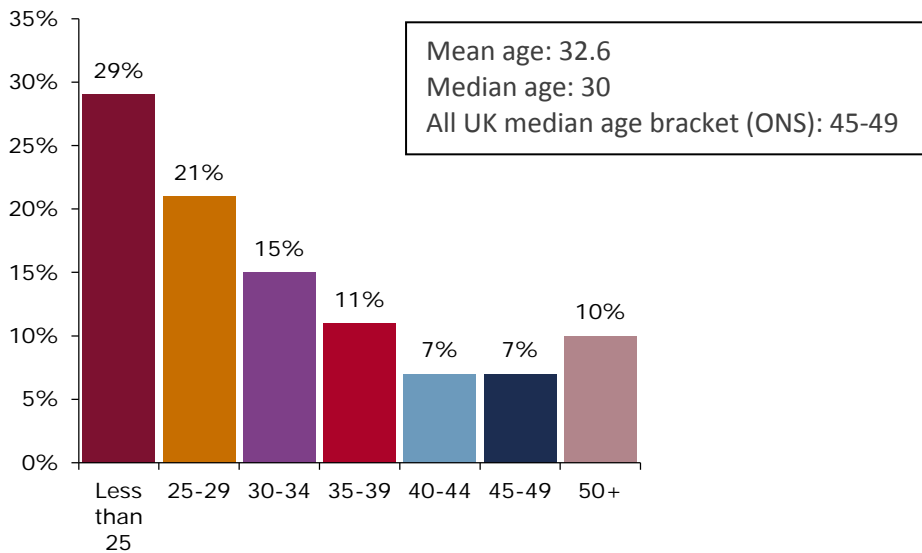


Figure 1. Q2.1. Age (n=489)

ONS statistics (based on 2011 census data) indicate that the median age of all UK residents aged 18+ is in the 45-49 bracket (estimated at 47).

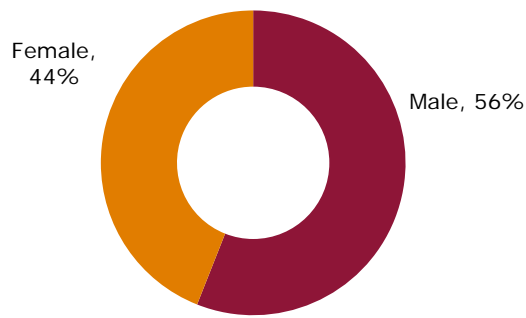


Figure 2. Q2.1. Gender (n=489)

2.1.2 Housing type

Most Group 1 customers are renting, with a third doing so from a local authority or housing association rather than privately.

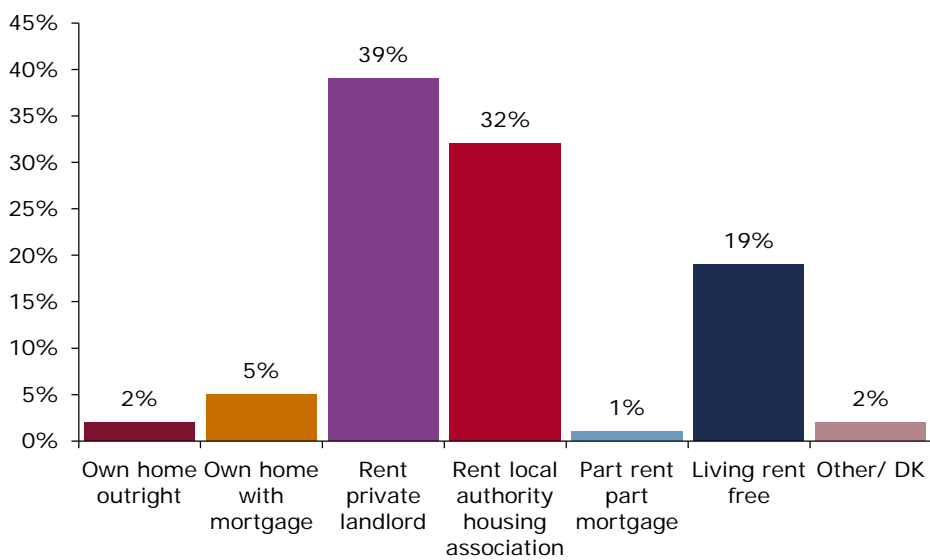


Figure 3. Q2.2. Do you currently own or rent your accommodation? (n=489)

Amongst those living rent free, most are doing so with parents or another family member.

2.1.3 Dependents

In the most part declined customers have no dependents, with more than half (57%) stating they have no children aged 16 living with them or dependent on them.

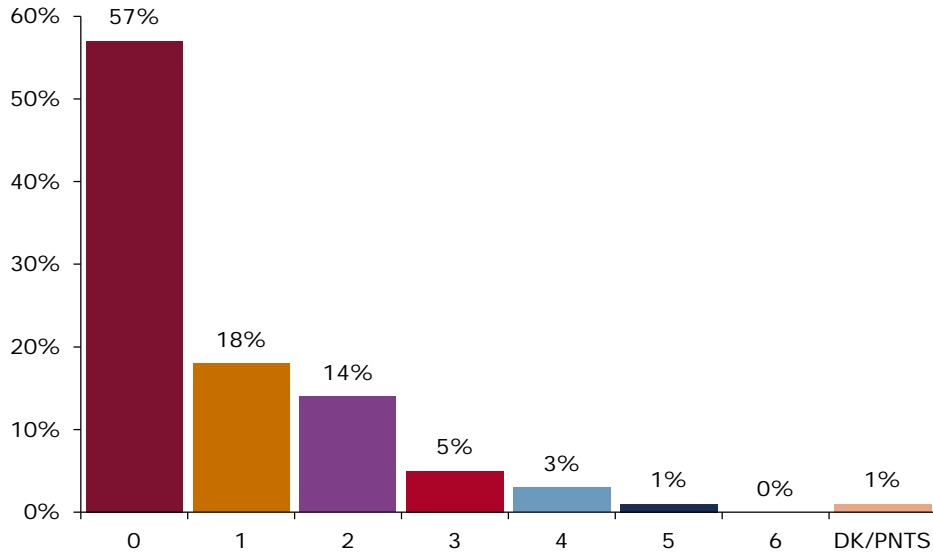


Figure 4. Q2.4. 2.4 How many children under the age of 16 live with you or are dependent on you? (n=489)

2.1.4 Working status and qualifications

Approaching three quarters of those declined a loan are working at the moment, either full or part-time, either employed or self-employed.

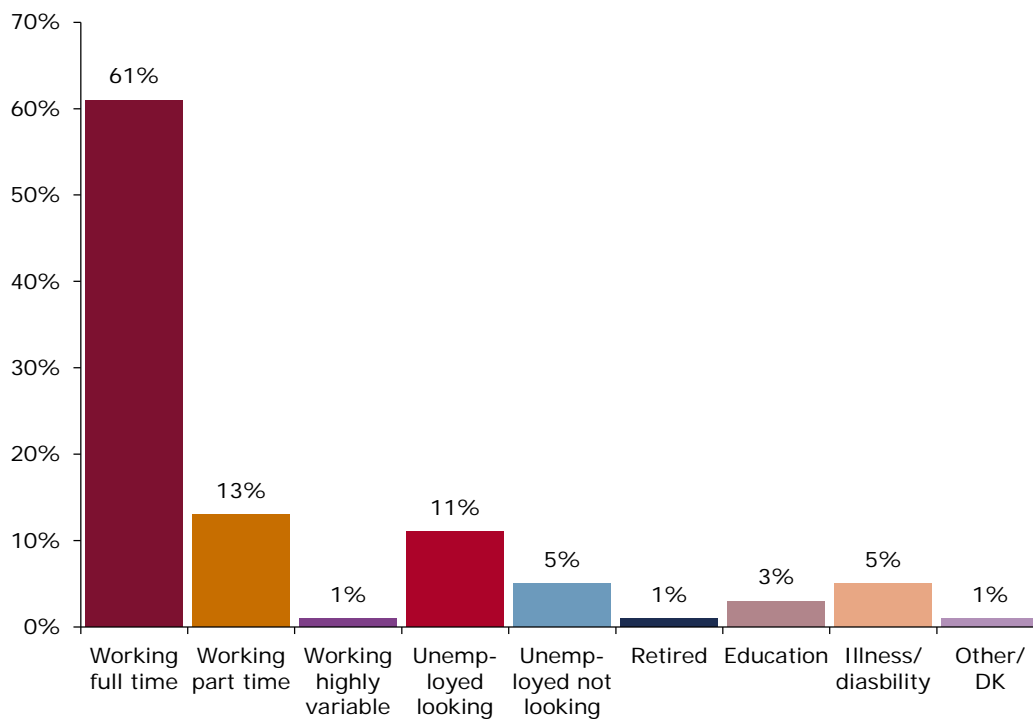


Figure 5. Q2.7. Thinking about your employment, what is your current status? (n=489)

About 1 in 6 (16%) are qualified at degree level (compared to the national average of approximately 30%),³ but for more than a third (36%), their education stopped at GCSE or prior to this.

³ ONS 2011 census data for adults aged 16-64 (<https://www.ons.gov.uk/>)

2.1.5 Income and income loss

Over a third (35%) receive income from benefits (primarily child benefit and tax credits), and more than three quarters (77%) earn income from employment or self-employment.

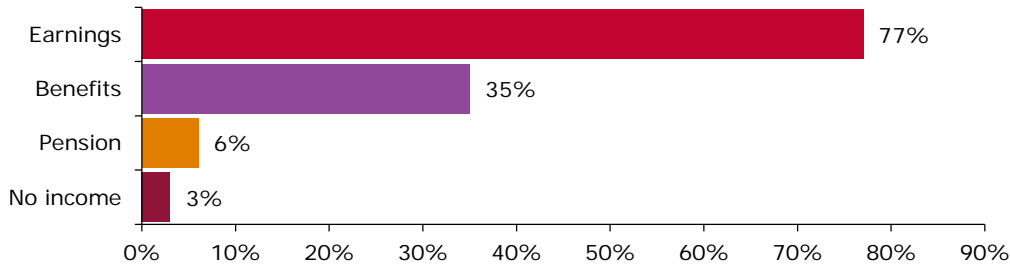


Figure 6. Q2.12. Which of the following sources of income do you receive? Please include sources of income paid to your partner but shared with you. (n=489)

With an average income of c. £16k (median £15k), those in the declined group typically earn less than the national average of £26,370.⁴

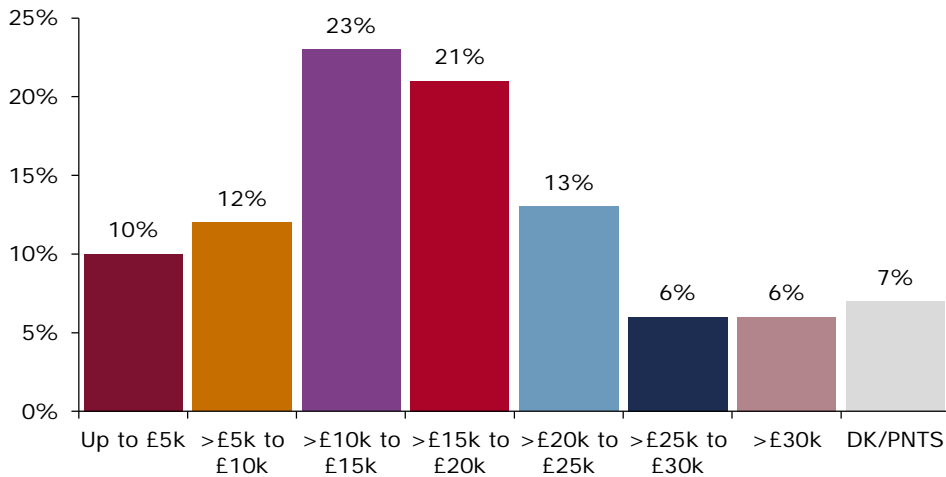


Figure 7. Q2.13. What is your usual [annual] total income from all sources, after any deductions are made for tax, National Insurance, pensions, union dues etc? (n=489)

⁴ ONS Distribution of median and mean income and tax by age range and gender, 2014-15. <https://www.gov.uk/government/collections/personal-incomes-statistics>

On average those in the declined group felt able to survive for 2 months meeting essential expenses if they lost their main source of income. Over half stated they could go longer than a month.

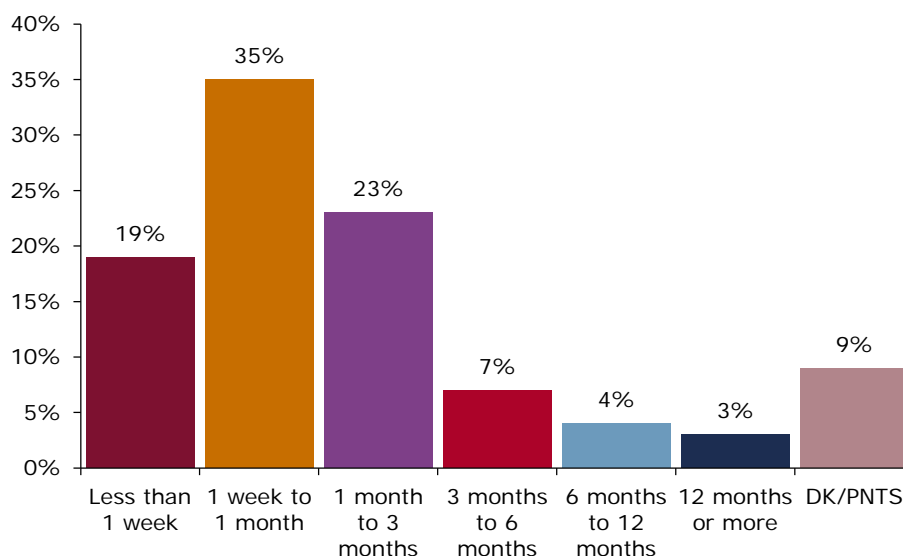


Figure 8. 2.9. For how long would you be able to meet your essential expenditures such as food, heating and clothing if you lost the main source of income coming into your household? (n=489)

2.1.6 Personal life ratings

Individuals in Group 1 seem happy and satisfied with their life, but with room for improvement. The average anxiety rating was under 4 in 10.

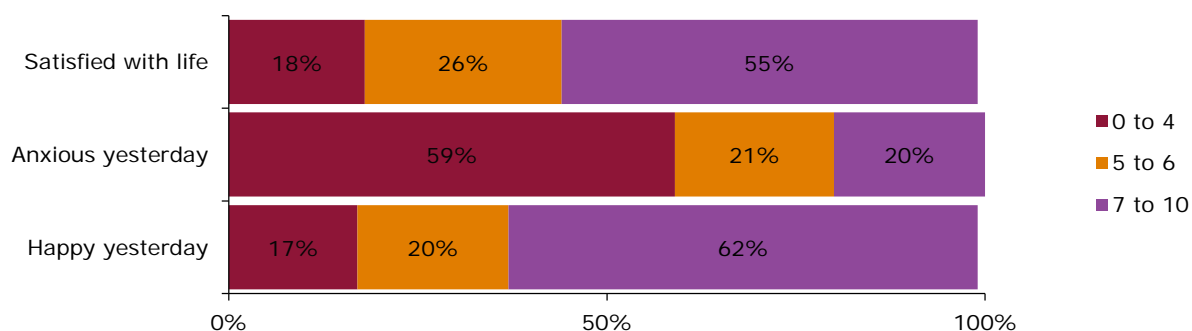


Figure 9. Q2.14. Overall, how happy were you yesterday? Q2.15. Overall, how anxious did you feel yesterday? Q2.16. Overall, how satisfied are you with your life nowadays? (n=489)

2.1.7 Keeping up with bills

1 in 4 of the declined group reported that they are able to keeping up with all their bills without any difficulty, however 2 in 5 (39%) indicate that things are a struggle. In total, just over 1 in 5 (22%) are in

a group we define as having financial difficulties where they are falling behind on some or many of their credit commitments.

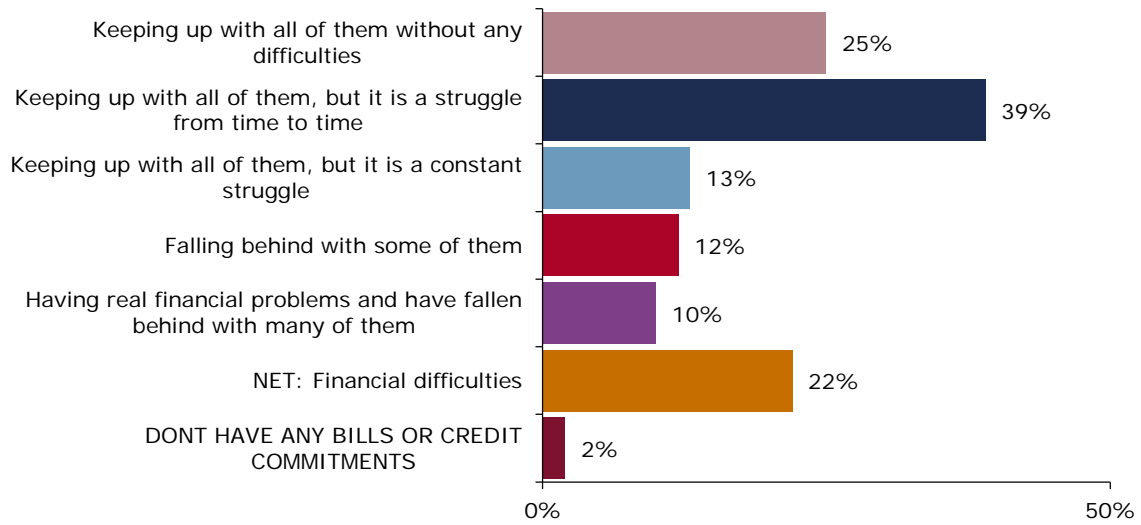


Figure 10. Q2.17. Turning now to your bills and credit commitments, which one of the following statements best describes how well you are keeping up with your bills and credit commitments at the moment? (n=489)

2.1.8 Current debt

Although around 1 in 5 (18%) of the declined group claim to have no debt, on average the value of unsecured borrowing is just under £4k (median £1200).

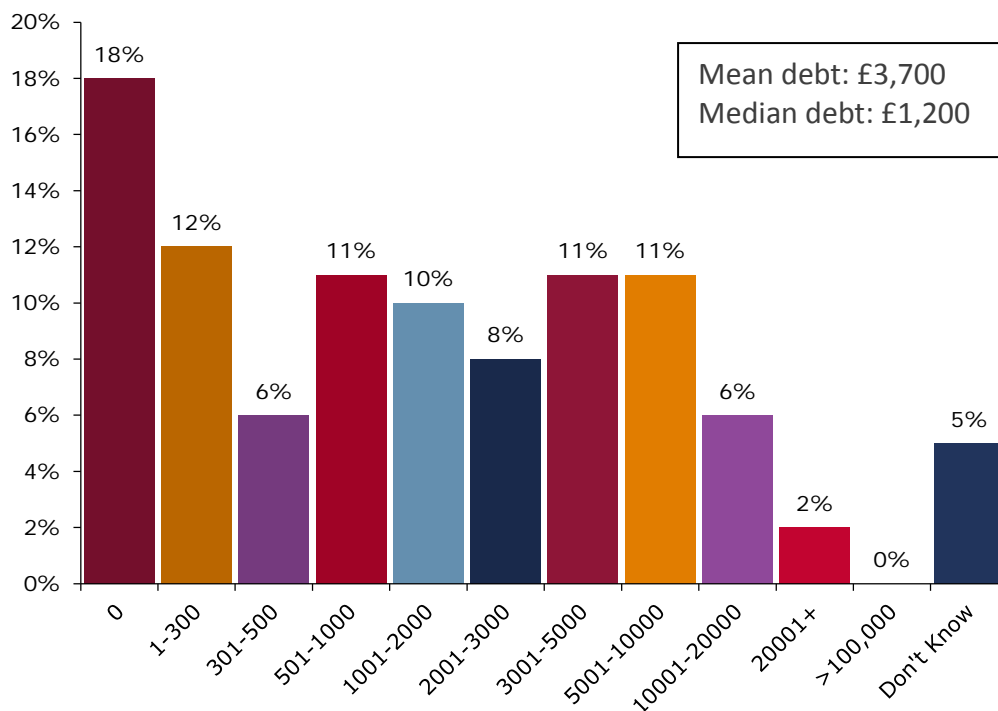


Figure 11. Q2.21. Approximately how much if anything do you currently owe on any debts including household bills, overdrafts, credit cards, personal loans, payday loans, hire purchase, etc? (but excluding student loans and mortgages)? (n=477)

2.1.9 Change in financial situation

Amongst those who have had a HCSTC loan declined, nearly half (48%) claim to be in a better financial situation than 12 months ago. 1 in 5 (21%) however report that they are now in a worse situation.

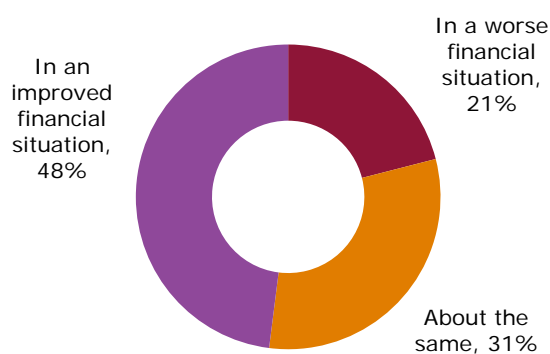


Figure 12. Q2.24. Comparing your financial situation now to 12 months ago. Are you....? (n=489)

Those people who claim to be in a worse situation are a little more likely to be male than the typical member of Group 1 (65% versus 56%) and marginally older (average age of 33.7 versus 32.6). They are also a little more likely to have dependent children (51% versus 42%) and receive income from benefits (51% versus 35%). Understandably this group are also finding it harder to meet their credit commitments and find their finances to be a burden.

2.1.10 Use of overdraft

Nearly two thirds of the declined group do not have an authorised overdraft facility.

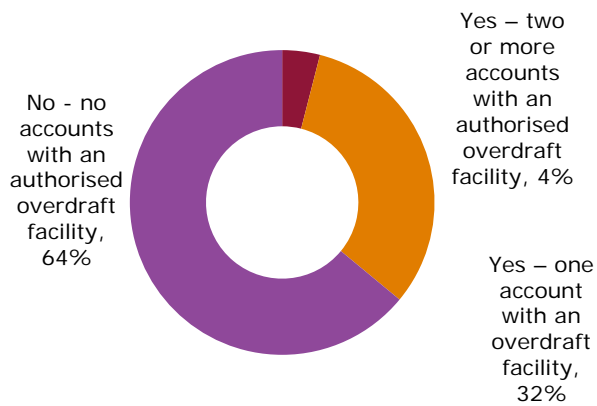


Figure 13. Q4.1. Do you have a current account with an arranged/authorised overdraft facility? (n=489)

2.1.11 Credit score

Understanding of credit scoring systems is varied. Around a third claim to understand the score very well (rated their understanding as 9 or 10). Almost 1 in 10 however (8%) gave their answer as 0. This suggests at least part of this group do not appreciate the impact multiple applications have on their credit file.

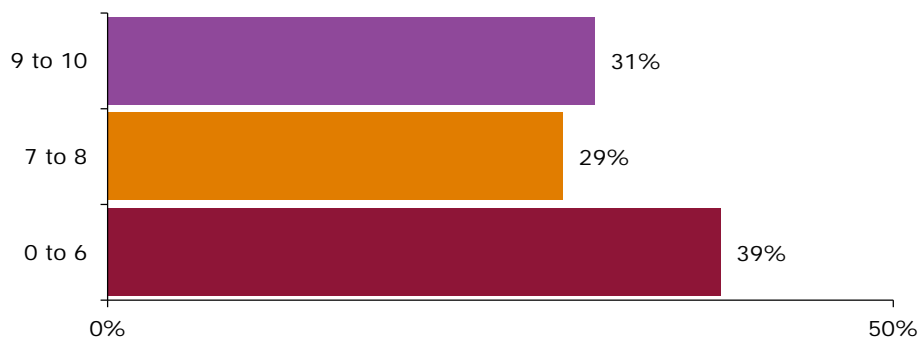


Figure 14. Q4.8. Lenders and credit reference agencies such as Callcredit, Equifax and Experian produce credit scores. On a scale from 0 (Absolutely no idea) to 10 (Perfectly knowledgeable), how confident are you in understanding what a credit score is? (n=489)

2.1.12 Use of professional debt help

Almost 1 in 5 have sought professional debt counselling advice. This is higher amongst those who say they are in real financial difficulties (41%). which shows that people in this group are more likely to seek help. This does not mean that 3 in 5 of those who are in financial difficulties are not seeking help but does show that this group are more likely to seek professional help or advice.

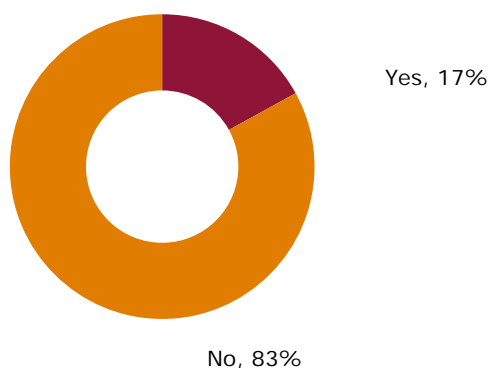


Figure 15. Q4.12. Over the last 12 months have you sought financial help from a professional debt management or advice organisation? (n=489)

2.2 Demographic profile: Group 2 (accepted)

Key attributes of Group 2 are:

- Aged nearly 35 (a little older than the declined group) and more male than female
- Renting from a private landlord, with a quartering social housing and c. 1 in 5 living rent free
- Three quarters are working full time
- Less than a quarter claim to receive any benefits
- Earn significantly more than the declined group
- Have debts that average £4,800 (more than the declined group) and about half have an overdraft

2.2.1 Age and gender

The accepted group comprises people of a variety of ages although noticeably fewer are between 40 and 49 years old. In addition we see a higher proportion of men in this group.

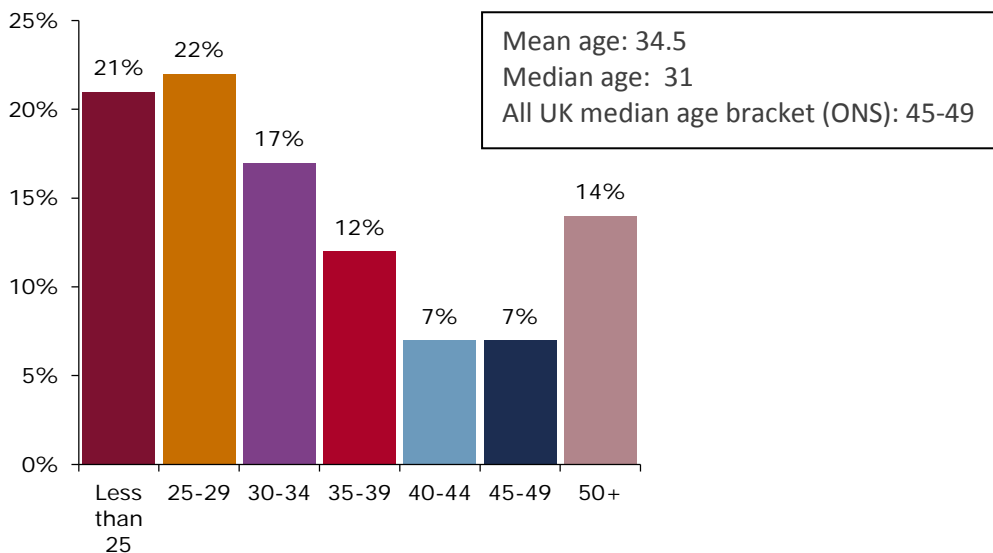


Figure 16. Q2.1. Age (n=1005)

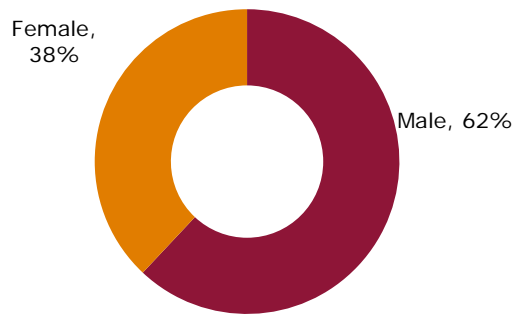


Figure 17. Q2.1. Gender (n=1005)

2.2.2 Housing type

1 in 4 of the accepted group (24%) are in social housing which is noticeably lower than the proportion who are in private accommodation (53% in total). A reasonably small number of people (around 1 in 8) are in a house which they either own or pay a mortgage however.

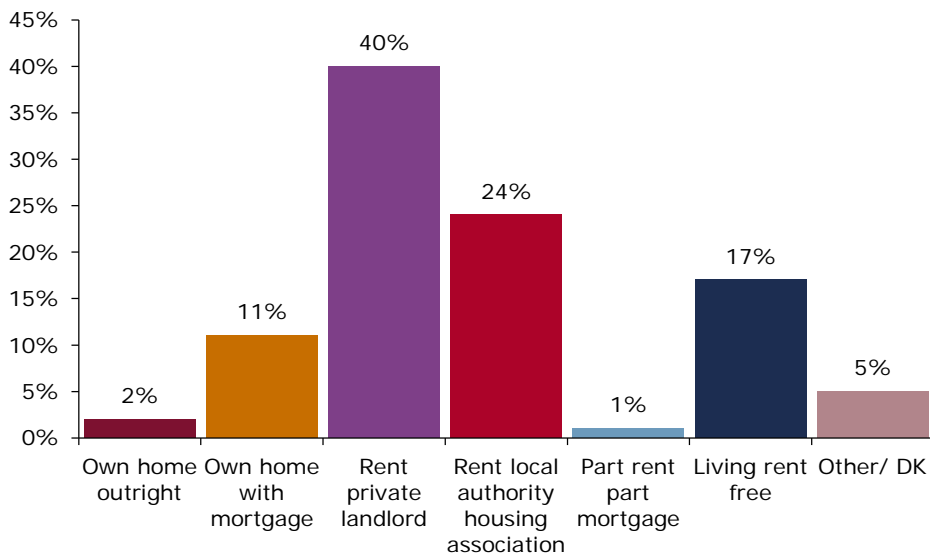


Figure 18. Q2.2. Do you currently own or rent your accommodation? (n=1005)

2.2.3 Dependents

The majority of those in the accepted group have no dependents.

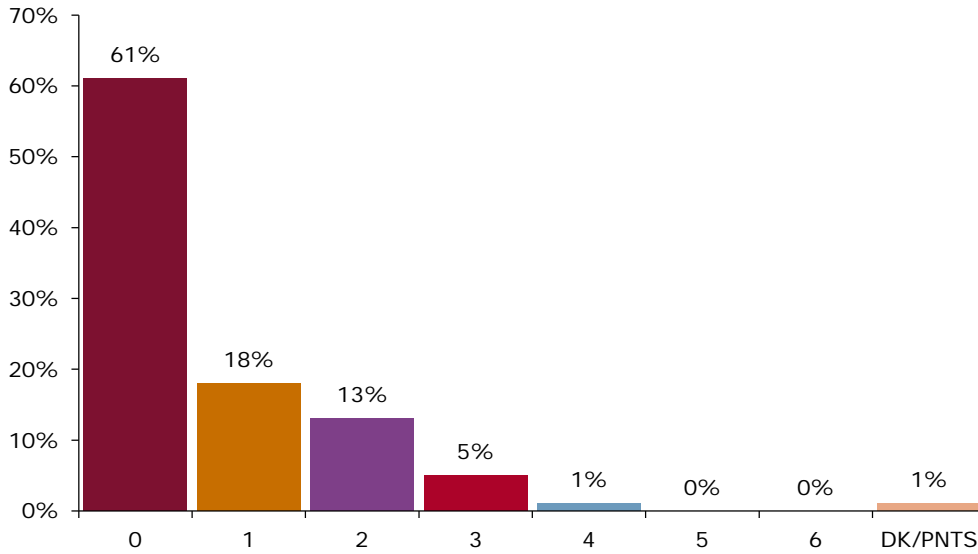


Figure 19. Q2.4. How many children under the age of 16 live with you or are dependent on you? (n=1005)

2.2.4 Working status and qualifications

Three quarters (74%) of group 2 people are working full time. A small but significant percentage (c. 11%) of this group are not working at all.

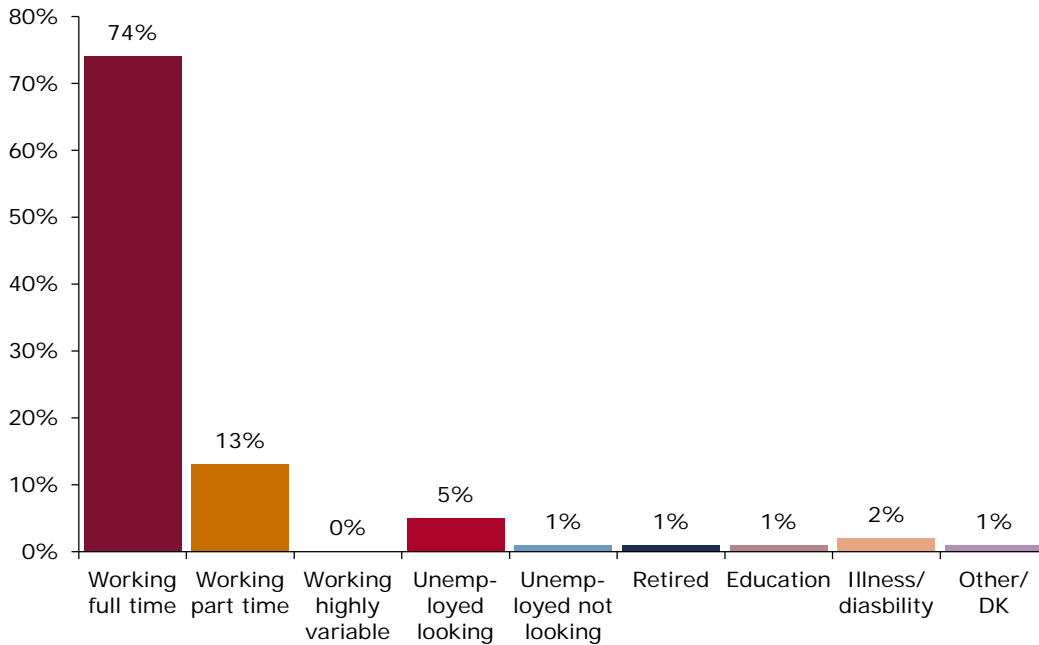


Figure 20. Q2.7. Thinking about your employment, what is your current status? (n=1005)

2.2.5 Income and income loss

Nearly 9 out of 10 (86%) of those in group 2 have income from earnings. Around 1 in 4 (24%) have income from benefits (note that earnings and benefits are not mutually exclusive).

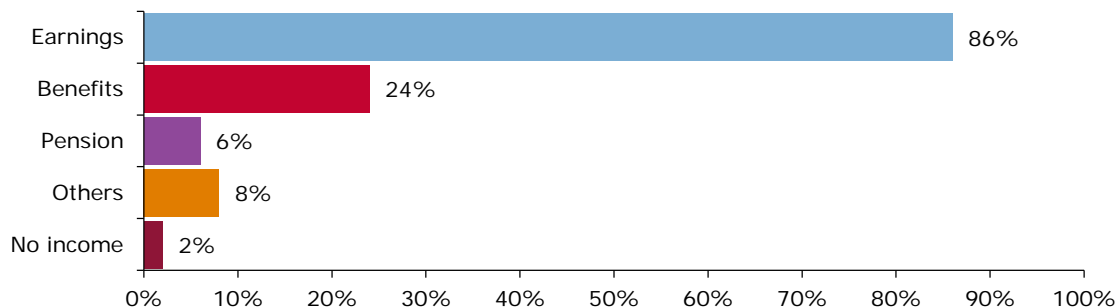


Figure 21. Q2.12. Which of the following sources of income do you receive? Please include sources of income paid to your partner but shared with you. (n=1005)

With a mean income of £20k (median £18k), the accepted group, just like the declined group, earn less than the national average of £26,370.⁵ Nearly one third (31%) earn less than £15k per year.

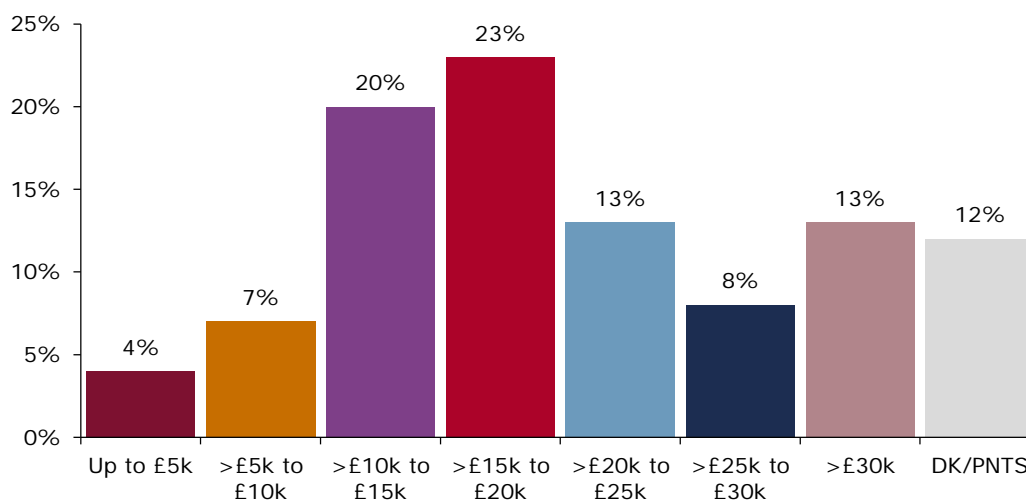


Figure 22. Q2.13. What is your usual [annual] total income from all sources, after any deductions are made for tax, National Insurance, pensions, union dues etc? (n=1000)

⁵ See footnote 4

Around 1 in 10 (12%) of the accepted group felt able to last for 1 week or less if the main source of income was removed. About half however (47%) felt able to last for 1 month or more. On average, the accepted group felt able to last without their main income for 2.5 months.

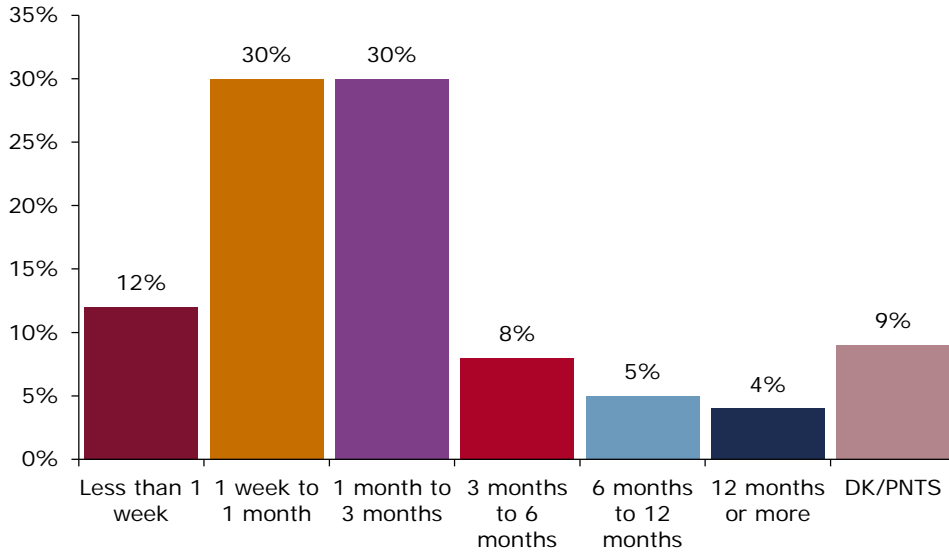


Figure 23. Q2.9. For how long would you be able to meet your essential expenditures such as food, heating and clothing if you lost the main source of income coming into your household? (n=1005)

2.2.6 Personal life ratings

The majority of those in group 2 are happy, satisfied with life and not particularly anxious.

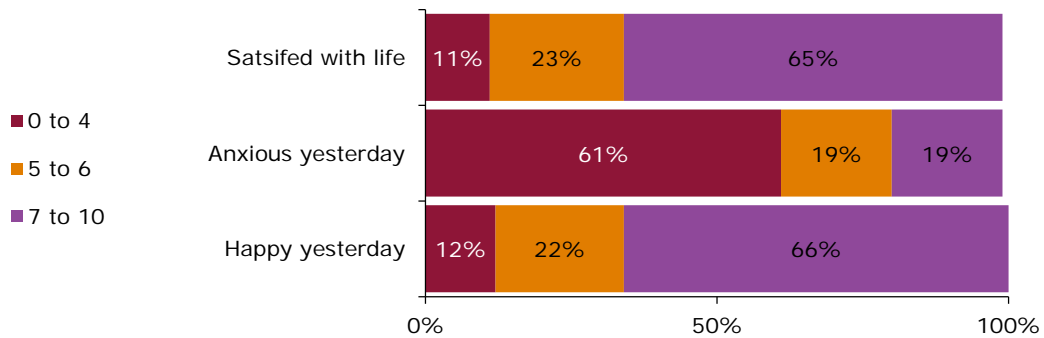


Figure 24. Q2.14. Overall, how happy were you yesterday? Q2.15. Overall, how anxious did you feel yesterday? Q2.16. Overall, how satisfied are you with your life nowadays? (n=1004)

2.2.7 Personal life ratings – arrears

In group 2 those not keeping up with payments on their last HCSTC loan are predictably less happy. The proportion scoring 7-10 for those whose last HCSTC loan was in default was 49% and those in arrears was 56% (compared to 70% for those paid in full).

	Paid in full (group 2)	Default (group 2)	Arrears (group 2)
Satisfied with life (% scoring 7 to 10)	70%	49%	56%
Anxious yesterday (% scoring 7 to 10)	16%	22%	28%
Happy yesterday (% scoring 7 to 10)	71%	36%	51%

Figure 25. Q2.14. Overall, how happy were you yesterday? Q2.15. Overall, how anxious did you feel yesterday? Q2.16. Overall, how satisfied are you with your life nowadays? (n=1005)

Similarly, ratings for anxiety and happiness follow suit.

2.2.8 Keeping up with Bills

Around 1 in 7 (14%) of the accepted group are in financial difficulties. Conversely, nearly one third (29%) report that they are keeping up with all their commitments with no difficulties.

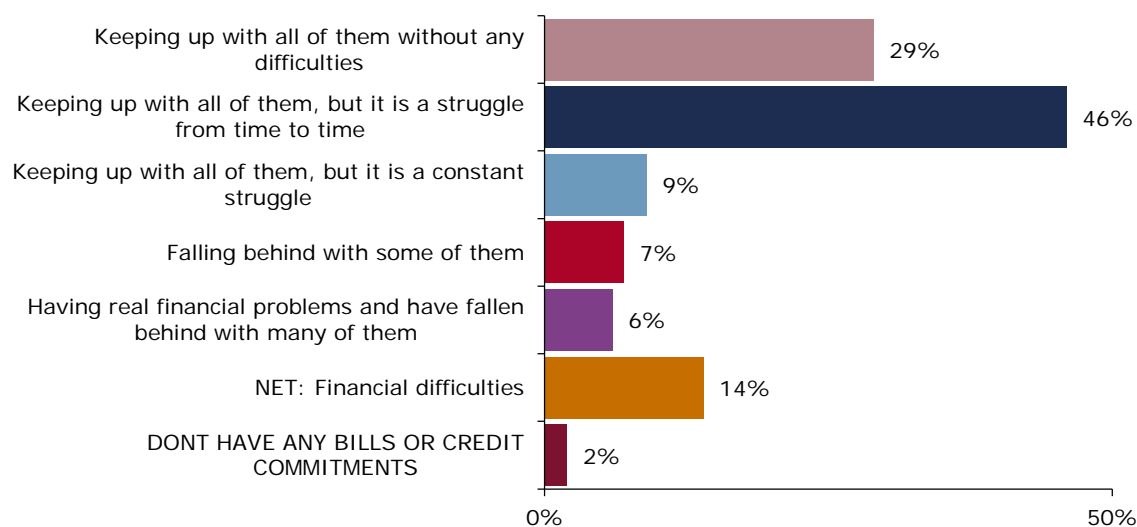


Figure 26. Q2.17. Turning now to your bills and credit commitments, which one of the following statements best describes how well you are keeping up with your bills and credit commitments at the moment? (n=1005)

2.2.9 Current debt

On average, the accepted group have just under £5k in unsecured debt. It is of note that a reasonable proportion (around 1 in 8) have debts of £10k or more.

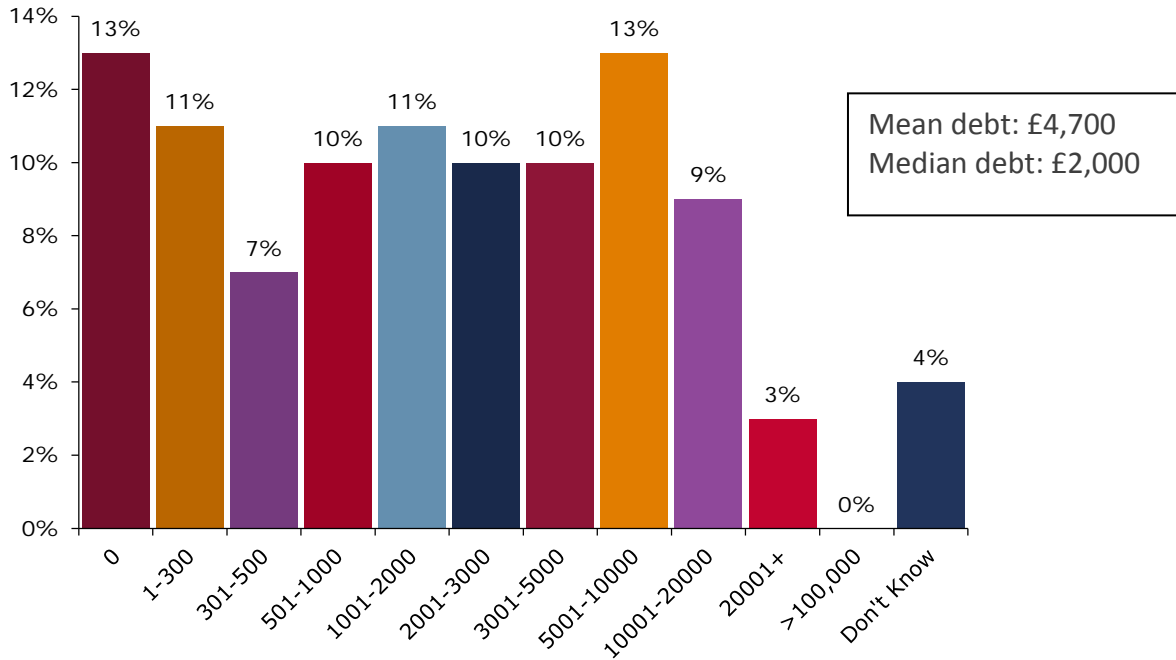


Figure 27. Q2.21. Approximately how much if anything do you currently owe on any debts including household bills, overdrafts, credit cards, personal loans, payday loans, hire purchase, etc? (but excluding student loans and mortgages)? (n=977)

2.2.10 Change in financial situation

Almost half (48%) of the accepted group are in an improved financial situation compared to this time last year. 1 in 5 however (20%) are in a worse position.

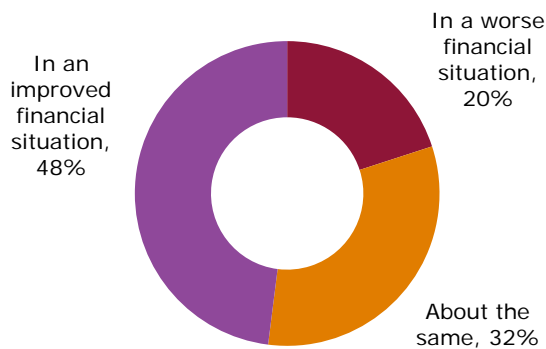


Figure 28. Q2.24. Comparing your financial situation now to 12 months ago.... are you....(n=1005)

2.2.11 Use of overdraft

We see a very even split here in our accepted group. Half have an overdraft facility and half do not.

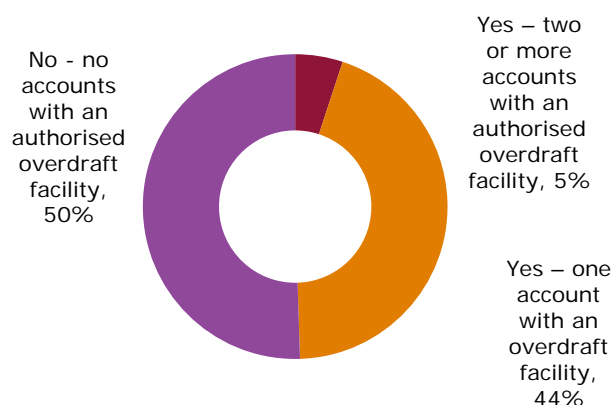


Figure 29. Q4.1. Do you have a current account with an arranged/authorised overdraft facility? (n=1005)

2.2.12 Credit score

More than a third (38%) of the accepted group claim to have a very good knowledge of credit scores. Worth noting however that 1 in 10 gave a score of 2 or less suggesting that a reasonable proportion of people do not have a high level of knowledge about these searches.

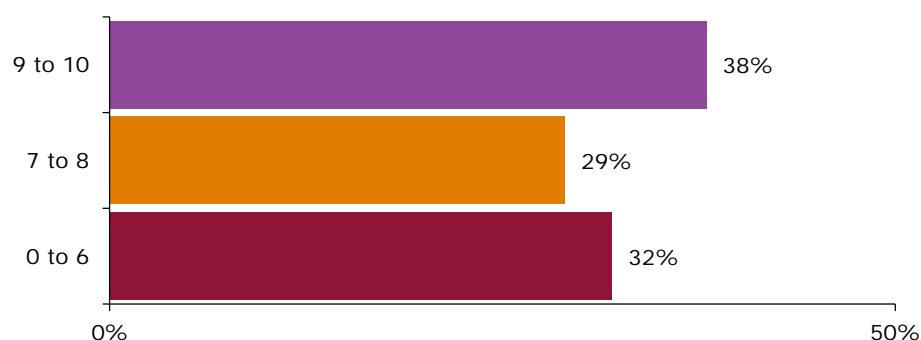


Figure 30. Q4.8. Lenders and credit reference agencies such as Callcredit, Equifax and Experian produce credit scores. On a scale from 0 (Absolutely no idea) to 10 (Perfectly knowledgeable), how confident are you in understanding what a credit score is? (n=1000)

2.2.13 Use of professional debt help

1 in 7 (14%) of the accepted group have sought professional help with their debts.

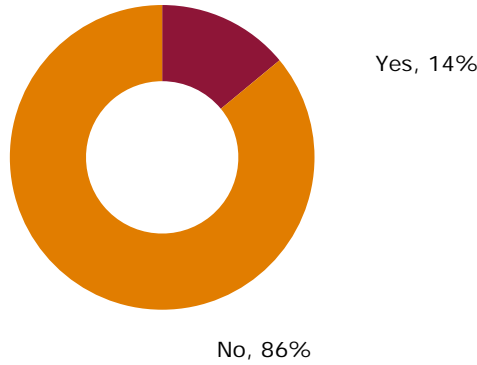


Figure 31. Q4.12. Over the last 12 months have you sought financial help from a professional debt management or advice organisation? (n=1005)

2.2.14 Number of HCSTC loans

Despite over 1 in 4 (29%) only having taken out one HCSTC loan in the past 12 months amongst the accepted group, the mean number of loans is 3.4. Almost 1 in 4 (22%) have taken out 5 or more loans in the past 12 months.

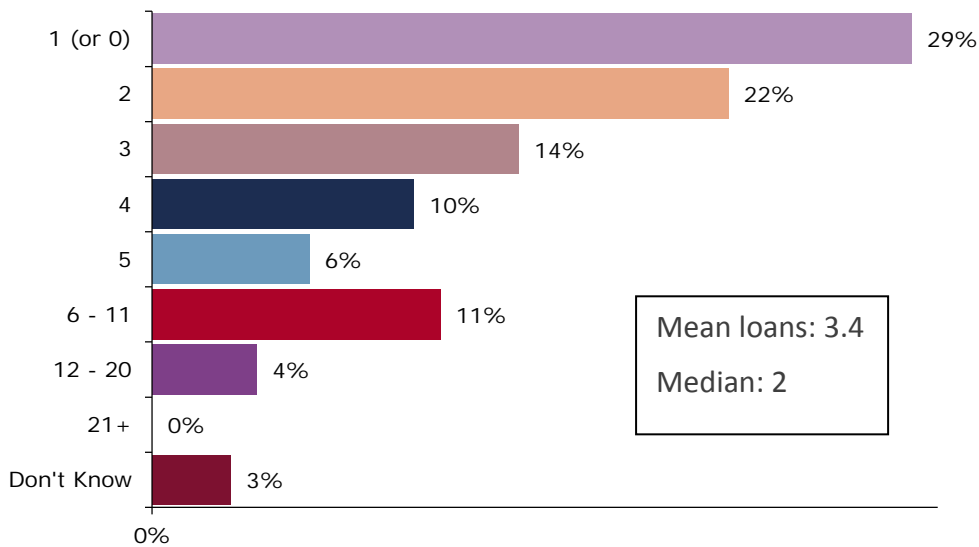


Figure 32. Q3.1. How many payday loans have you taken out in the last 12 months? (n=1005)

Amongst the 16% (figure differs from chart due to rounding) taking 6+ loans and the 5% with 12+ loans there are some differences:

	All accepted (Group 2)	6+ loans in last 12 months	12+ loans in last 12 months
Average age	34.5	33.8	35.1
Renting from local authority / housing association	24%	21%	17%
Have no dependent children	61%	62%	54%
Educated to degree level	24%	24%	21%
Employed full time	74%	81%	86%
Average anxiety level (out of 10)	3.5	4.0	4.5
Experiencing financial difficulties	14%	16%	25%
Always / mostly run out of money each month	35%	62%	64%
Worse financial situation than 12 months ago	20%	26%	28%

Figure 33. Key demographics of those taking 6+ or 12+ loans in the last 12 months (n=1005)

2.2.15 Expectation of amount repaid

1 in 4 (25%) paid back more than they expected. Those with a lower income are more likely to have said this (34% amongst those earning £10k or less). Also those who are falling behind are also more likely to suggest they paid back more than they expected (44%).



Figure 34. Q3.13. Taking everything into account, was the total amount that you had to repay more than, less than or about the same as you had expected when you took out this payday loan? (n=960)

2.2.16 Status of most recent loan

Around 1 in 8 (13%) of the accepted group cite that their current loan is either in arrears or default. This equates to 30% of all those who still have a loan in payment.

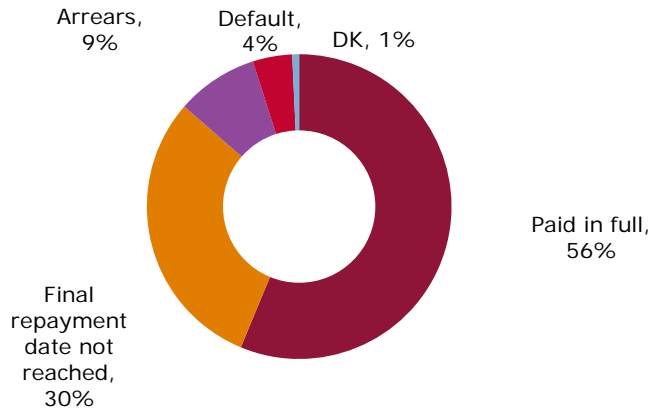


Figure 35. Q3.4. Have you repaid this payday loan in full? (n=961) & Q3.5. What is the status of your loan? (n=417)

2.3 Demographic profile: Group 3 (former)

Key attributes of Group 3 are:

- As a group, demographically similar to the accepted group
 - Similar level of debt
 - Most income is from earnings not benefits
- Average age is 36 and a similar bias towards males
- Perhaps a little more advanced in life-stage
 - Slightly higher incidence of mortgage (16%), but most still rent or are in social housing
 - A greater proportion are working full time, although average income is only slightly more
 - Not too many are facing financial difficulties, but debt levels are higher
 - Have a greater understanding of credit scores
- Yet more have no children dependent on them

2.3.1 Age and gender

As with the other two groups, former users show a good spread of age. The average age is slightly higher than with the other two groups. More than half (56%) are less than 35 however.

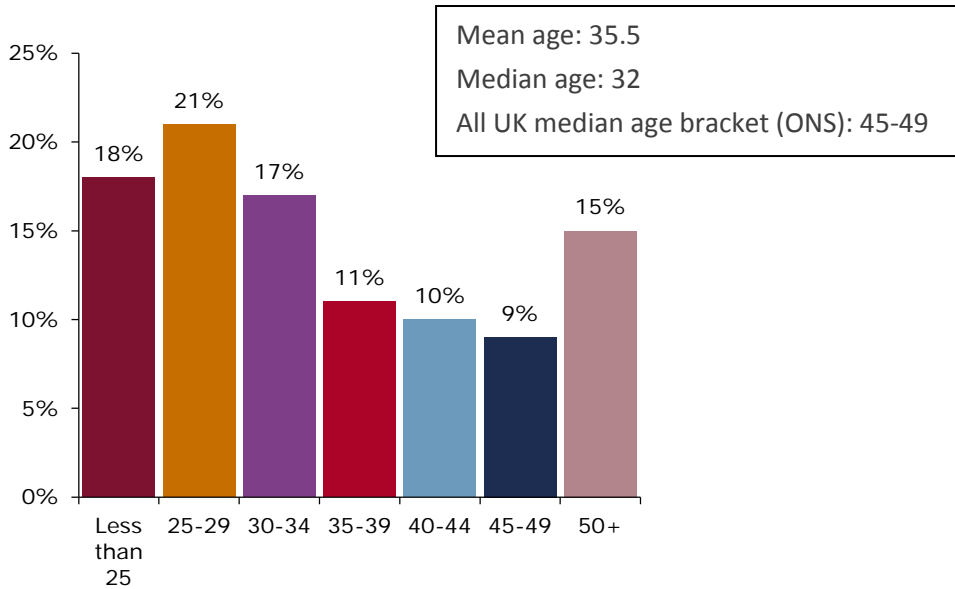


Figure 36. Q2.1. Age (n=306)

Amongst the former group we observe a slightly higher proportion of men; a 60/40 split of men versus women.

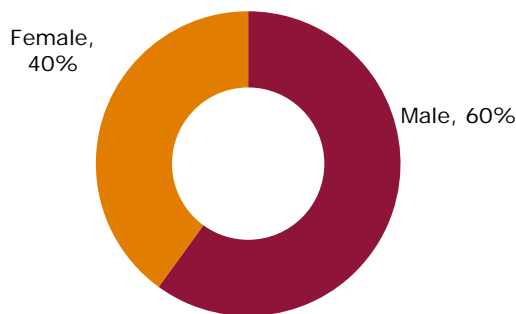


Figure 37. Q2.1. Gender (n=306)

2.3.2 Housing type

Around 1 in 4 (24%) of the former group are in local authority housing. The majority, 54%, are in accommodation they either rent privately or own/ mortgage.

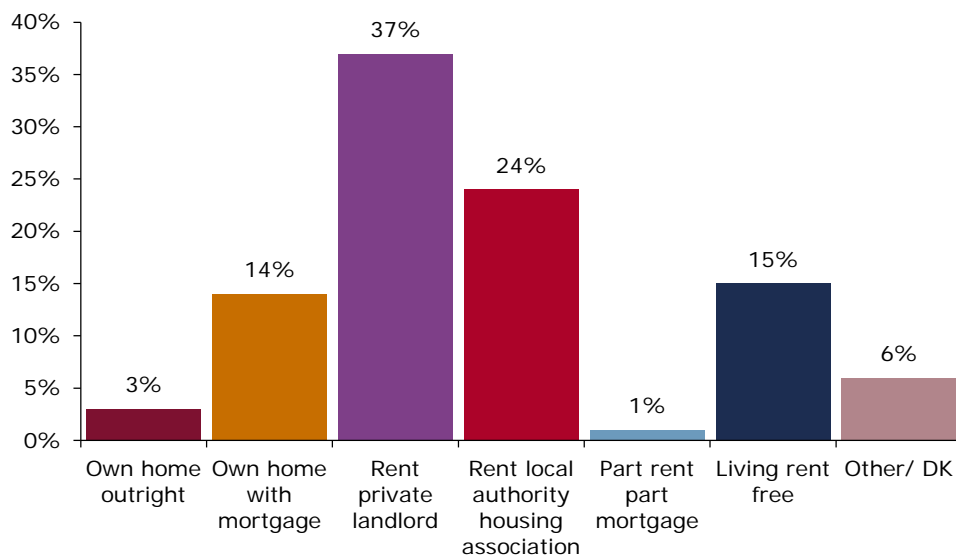


Figure 38. Q2.2. Do you currently own or rent your accommodation? (n=489)

2.3.3 Dependents

The vast majority of the former group have no dependents (69%) and only 15% have 2 or more.

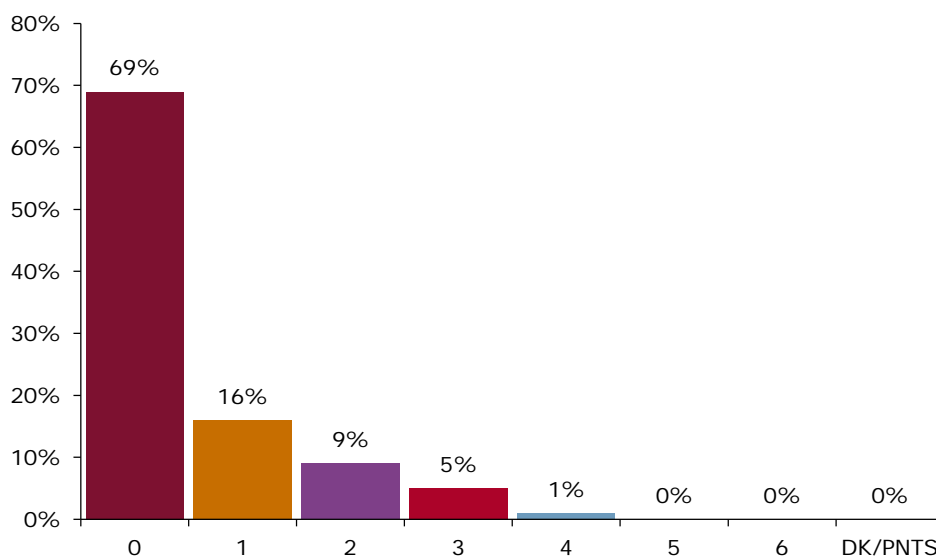


Figure 39. Q2.4 How many children under the age of 16 live with you or are dependent on you? (n=306)

2.3.4 Working status and qualifications

Nearly three quarters (70%) of the former group are working full time with in total, more than 4 in 5 working at all.

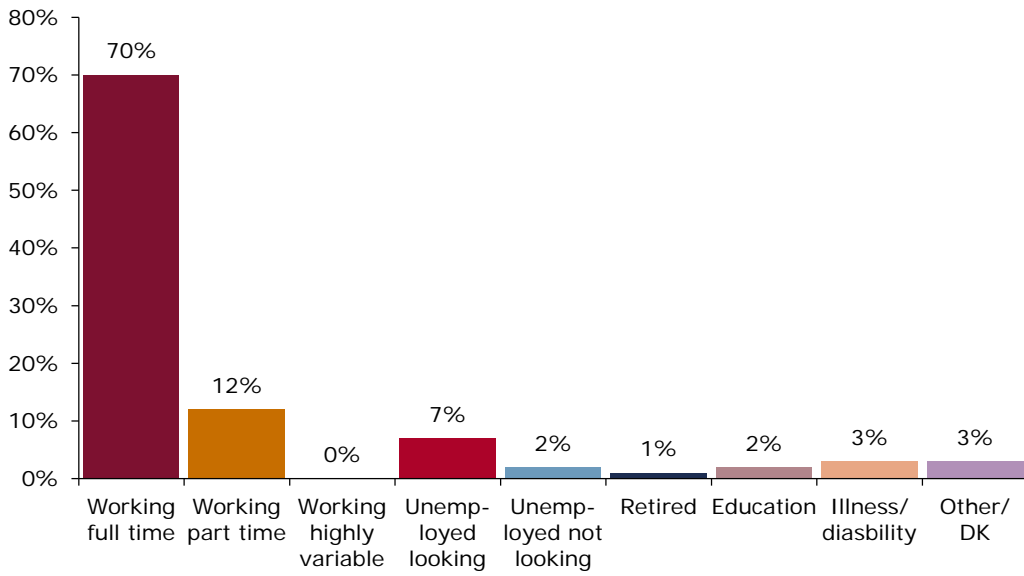


Figure 40. Q2.7. Thinking about your employment, what is your current status? (n=306)

2.3.5 Income and income loss

As to be expected with the high level of employment seen in the former group, the vast majority have income from earnings.

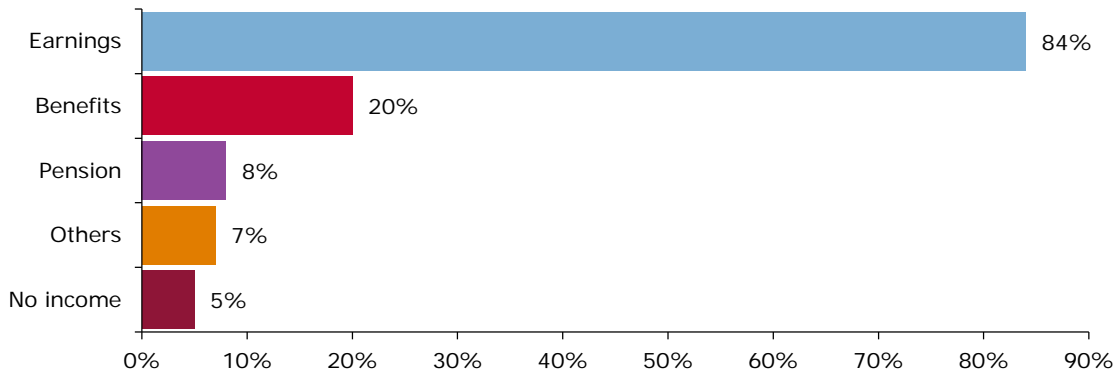


Figure 41. Q2.12. Which of the following sources of income do you receive? Please include sources of income paid to your partner but shared with you. (n=306)

The average income for the former group is slightly higher than the other groups at £20.2k but below that of the national average (£26,370).⁶

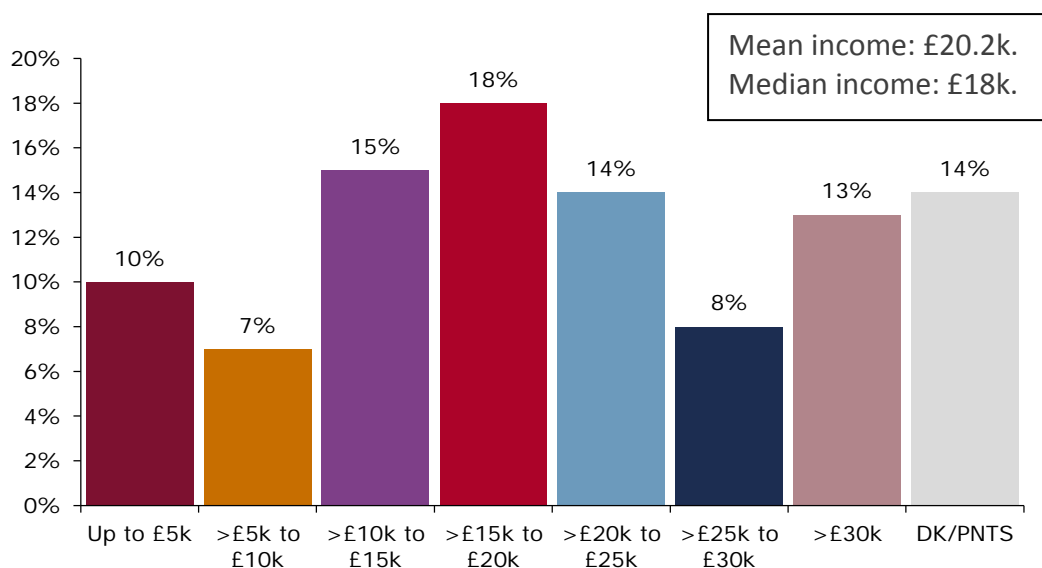


Figure 42. Q2.13. What is your usual [annual] total income from all sources, after any deductions are made for tax, National Insurance, pensions, union dues etc? (n=306)

Around a third (38%) of the former group suggest they could meet essential expenditure needs for 1 month or less should their income be removed. 1 in 10 say this time period is 6 months or greater.

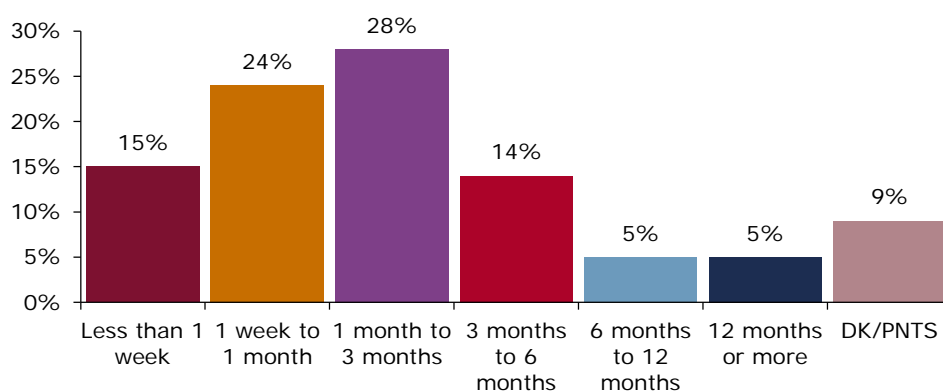


Figure 43. 2.9. For how long would you be able to meet your essential expenditures such as food, heating and clothing if you lost the main source of income coming into your household? (n=306)

⁶ See footnote 4

2.3.6 Personal life ratings

Generally the former group seem fairly happy with their life at the moment.

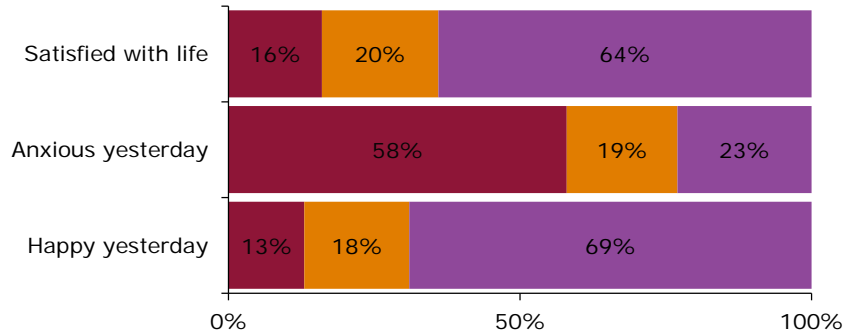


Figure 44. Q2.14. Overall, how happy were you yesterday? Q2.15. Overall, how anxious did you feel yesterday? Q2.16. Overall, how satisfied are you with your life nowadays? (n=306)

2.3.7 Keeping up with bills

Nearly 2 in 5 (37%) of the former group report that they are keeping up with all of their bills without difficulty. But around 1 in 7 (14%) are in financial difficulty.

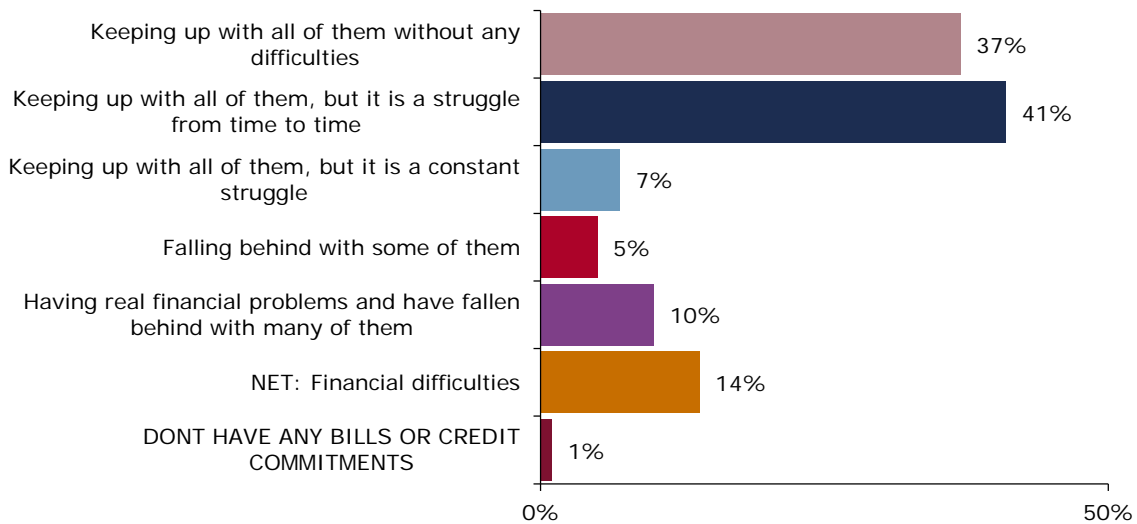


Figure 45. Q2.17. Turning now to your bills and credit commitments, which one of the following statements best describes how well you are keeping up with your bills and credit commitments at the moment? (n=306)

2.3.8 Current debt

Those in the former group, do still have a reasonable level of debt (even though they are no longer using payday loans).

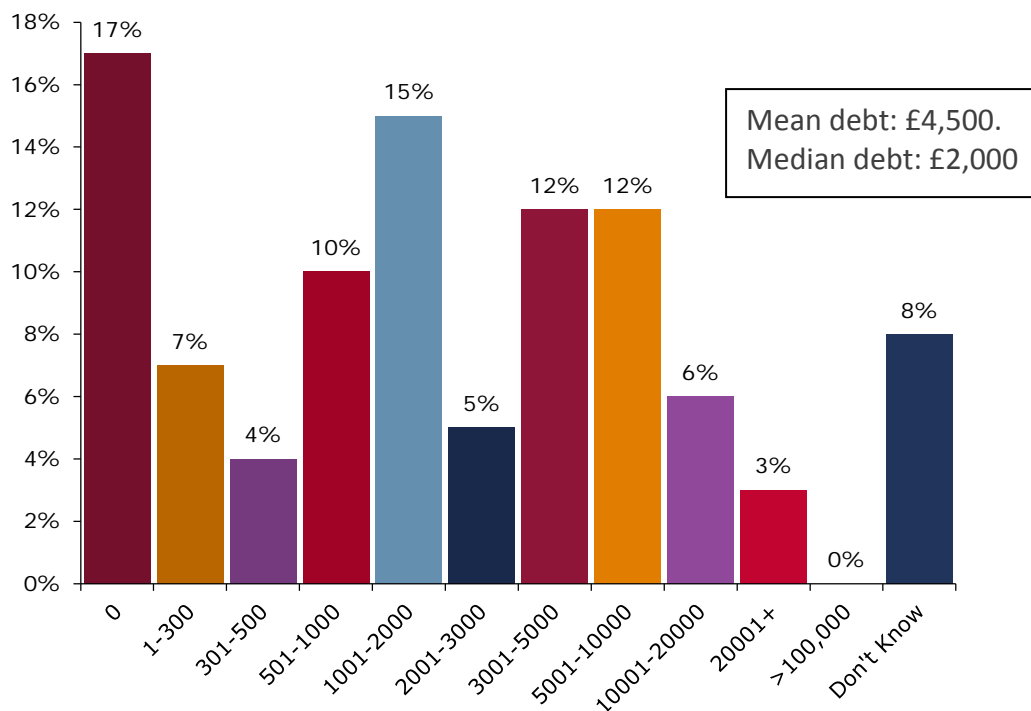


Figure 46. Q2.21. Approximately how much if anything do you currently owe on any debts including household bills, overdrafts, credit cards, personal loans, payday loans, hire purchase, etc? (but excluding student loans and mortgages)? (n=305)

2.3.9 Change in financial situation

Nearly two thirds (59%) claim to be in a better financial situation compared to 12 months ago; the highest in any of our groups.

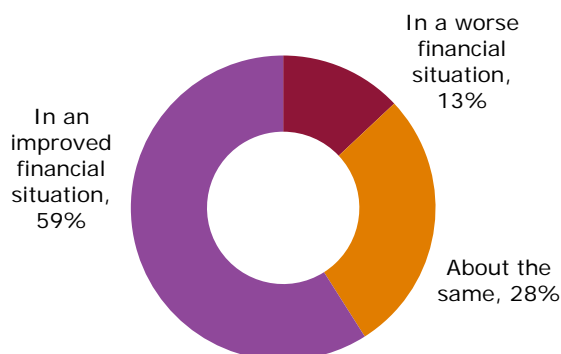


Figure 47. Q2.24. Comparing your financial situation now to 12 months ago... are you? (n=306)

2.3.10 Use of overdraft

As with the accepted group the split between those who do and those who do not have an overdraft facility is approximately 50/50.

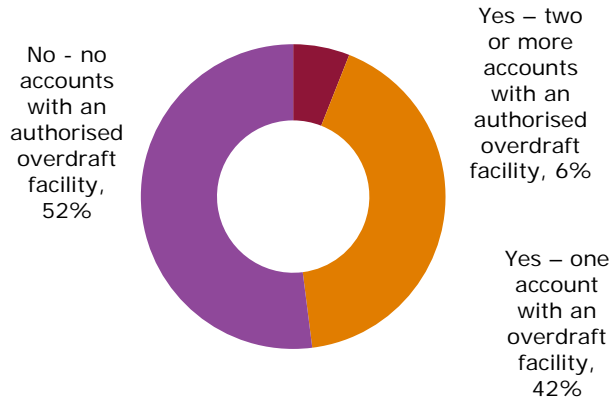


Figure 48. Q4.1. Do you have a current account with an arranged/authorised overdraft facility? (n=306)

2.3.11 Credit score

Although 7% of this group claim to have no knowledge of credit scoring (i.e. gave a 0 out of 10), a large proportion (40%) go claim a high level of knowledge.

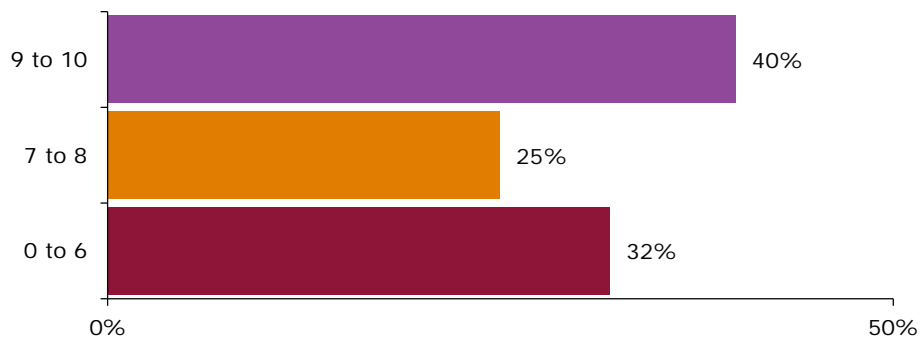


Figure 49. Q4.8. Lenders and credit reference agencies such as Callcredit, Equifax and Experian produce credit scores. On a scale from 0 (Absolutely no idea) to 10 (Perfectly knowledgeable), how confident are you in understanding what a credit score is? (n=305)

2.3.12 Use of professional debt help

Around 1 in 7 (15%) of the former group are currently involved in professional debt assistance.

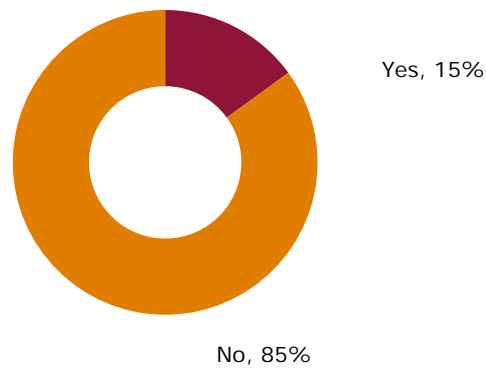


Figure 50. Q4.12. Over the last 12 months have you sought financial help from a professional debt management or advice organisation? (n=306)

2.4 Comparison of Group 1 vs Group 2

Comparing those who have been declined a payday loan versus those who have been accepted, there are some tangible demographic and attitudinal differences. Those declined are:

- A little younger
- Less likely to be working and consequently on lower average incomes
- A little less happy with their lives
- Less able to understand their credit score
- Less willing to delay reward
- Less able to calculate interest rates

Group 1 has slightly lower levels of employment (61% are working full time) compared to group 2 (74% are working full time), which is a contributing factor to the lower group 1 average income. A further factor is that the average earnings of those working in group 1 is less than that for group 2 (£18.9k for group 1 versus £22.3 for group 2).

2.4.1 Age and Gender

	Group 1 (declined)	Group 2 (accepted)
Average Age	32.6	34.5
Male/ Female Split	56% / 44%	62% / 38%

Figure 51. Group 1 vs group 2: age

We observe a slight difference in the average age between these two groups. In general, the accepted group are slightly older by almost two years. More stark perhaps is the significant difference in gender profile. We see a higher proportion of males in the accepted group, which is potentially linked to the higher level of (full-time) employment seen in group 2.

It is worth noting that the declined group do have a higher proportion of the very youngest group (less than 25). This makes up 29% of the declined group versus 21% of the accepted group.

2.4.2 Working status & Income

	Group 1 (declined)	Group 2 (accepted)
Working full time	61%	74%
Average Income	£15,900	£20,400
Ave months survive w/out income	2.2	2.5
Regular Income	77%	81%
Varies a lot	15%	13%
Varies a lot each week	39%	20%
Varies a lot each month	59%	71%

Figure 52. Group 1 vs group 2: working status and income

As we might expect, the declined group are less likely to be working and are on a lower income. There is not however a huge difference in the number of months these groups claim they could meet their essential expenditures, but the difference does imply that the declined customers are slightly less financially stable.

2.4.3 Personal Life & Keeping up with Bills

	Group 1 (declined)	Group 2 (accepted)
Satisfied with Life	6.5	7.0
Anxious yesterday	3.7	3.5
Happy yesterday	6.8	7.1
Keeping up with bills	77%	84%
Financial difficulties	22%	14%
Better financial sit. than 12 months ago	48%	48%
Worse financial sit. than 12 months ago	21%	20%

Figure 53. Group 1 vs group 2: happiness and financial ratings

There is a slightly higher likelihood of people being less happy, in financial difficulties, or in a worse financial situation amongst group 1.

2.4.4 Understanding of credit score

	Group 1 (declined)	Group 2 (accepted)
Mean score	6.7	7.1
% giving a score of 0-6	39%	33%
% giving a score of 9-10	31%	38%

Figure 54. Group 1 vs group 2: understanding of credit score

There appears to be a slightly higher level of understanding around credit scores amongst the accepted group over the declined people.

2.4.5 Delayed reward

	Group 1 (declined)	Group 2 (accepted)
Smallest amount of money to wait 1 month (£1-100)	21%	27%
Smallest amount of money to wait 1 month (£101-500)	38%	32%
Smallest amount of money to wait 1 year (£101-500)	17%	18%
Smallest amount of money to wait 1 year (£501-1,001)	3%	2%
Smallest amount of money to wait 1 year (£1,001-10,000)	24%	22%

Figure 55. Group 1 vs group 2: delayed reward

The declined group need a larger sum to be persuaded to wait one month for their prize, which indicates the group are living a little more 'hand to mouth', or have a greater tendency to want to live for today (or both).

2.4.6 Interest rate understanding

	Group 1 (declined)	Group 2 (accepted)
1 month – correct answer	64%	72%
2 months – correct answer	42%	39%

Figure 56. Group 1 vs group 2: understanding interest rates

Respondents were asked two questions about interest rates at this point in the questionnaire. One question asked about a £500 over one month with a 10% per month interest rate, the second asked about the same £500 but after two months at a 10% interest rate. Shown above are the percentage of people who gave the right answer in terms of the amount they would have to pay back.

Here again we see evidence of a lower level of understanding around interest rates and financial matters. Group 1 are less likely to get the correct answer when we discuss a £500 loan for one month at 10% interest. The disparity between the groups is less clear when we look at the correct result for the amount to be repaid after 2 months. Around 4 in 10 in either group achieved the correct answer.

2.5 Comparison of Group 2: store and online

2.5.1 Age and Gender

	Store Users	Online
Less than 25	16%	22%
25 to 29	22%	22%
30 to 34	12%	18%
35 to 39	11%	12%
40 to 44	6%	7%
45 to 49	10%	7%
50 or more	22%	13%
Av. age	37.6	34.5
Male	55%	63%
Female	45%	37%

Figure 57. Store versus online - Age and Gender

Users of store based payday loans are a little older than those using online methods of securing funds. The most prominent difference is in the oldest group (50 plus) which makes up more than 1 in 5 of the store users versus 1 in 8 of the online users. Males are a little more likely to be online users.

2.5.2 Income and well-being

	Store Users	Online
Av income	£19.6k	£20.2k
Median income	£16.2k	£18k
Happy yesterday 0 to 4	14%	11%
Happy yesterday 5 to 6	26%	21%
Happy yesterday 7 to 10	59%	67%
Anxious yesterday 0 to 4	49%	63%
Anxious yesterday 5 to 6	25%	19%
Anxious yesterday 7 to 10	25%	18%
Satisfied nowadays 0 to 4	10%	11%
Satisfied nowadays 5 to 6	27%	23%
Satisfied nowadays 7 to 10	63%	65%

Figure 58. Store versus online – Income and wellbeing

Store users appear to have a slightly lower income than those using online methods of payday loan procurement. Generally it also seems that store users are slightly less happy and a little more anxious versus others.

2.5.3 Regret and cost of borrowing

	Store Users	Others
Happy with decision	57%	61%
Regret decision	34%	30%
Neither	9%	9%
Paid back more than expected	36%	23%
Paid back less than expected	6%	8%
About the same	56%	69%
Didn't know what it would cost	2%	0%

Figure 59. Store versus online – regret and cost of borrowing

Store users appear a little more likely to pay back more than they expected. And also slightly more likely to regret the decision to use a payday loan.

2.6 Comparison of Group 2: families and others

2.6.1 Age and Gender

	Those with dependents	Those without dependents
Less than 25	13%	25%
25 to 29	21%	22%
30 to 34	21%	15%
35 to 39	18%	9%
40 to 44	9%	6%
45 to 49	9%	6%
50 or more	9%	18%
Av. age	34.6	34.6
Male	57%	65%
Female	43%	35%

Figure 60. Dependents versus no dependents - Age and Gender

Those without dependents are biased towards the extremes of the age bands whilst those with dependents are more clustered between the ages of 25 and 39. As a result, the mean age is exactly the same. Males are a little more likely to have no dependents.

2.6.2 Income and well-being

	Those with dependents	Those without dependents
Av income	£21.9k	£19.1k
Median income	£19.2k	£16.8k
Happy yesterday 0 to 4	13%	11%
Happy yesterday 5 to 6	20%	23%
Happy yesterday 7 to 10	66%	66%
Anxious yesterday 0 to 4	61%	61%
Anxious yesterday 5 to 6	20%	19%
Anxious yesterday 7 to 10	17%	20%
Satisfied nowadays 0 to 4	10%	12%
Satisfied nowadays 5 to 6	24%	24%
Satisfied nowadays 7 to 10	66%	64%

Figure 61. Dependents versus no dependents – Income and life ratings

Income varies a little between those who have dependents versus those who do not, with the former group having a slightly higher income at c. £19k versus c. £17k.

2.6.3 Regret and cost of borrowing

	Those with dependents	Those without dependents
Happy with decision	57%	63%
Regret decision	34%	28%
Neither	9%	9%
Paid back more than expected	25%	25%
Paid back less than expected	10%	6%
About the same	65%	68%
Didn't know what it would cost	0%	1%

Figure 62. Dependents versus no dependents – Income and life ratings

It appears that those with dependents are slightly more likely to regret their decision to take out a payday loan versus those with no dependents, but there is little difference in the expectation of what it would cost.

2.7 Comparison of Group 2: arrears, default and paid in full

2.7.1 Age and Gender

	Paid in full	In default	In arrears
Less than 25	22%	18%	23%
25 to 29	21%	18%	14%
30 to 34	18%	23%	19%
35 to 39	12%	14%	14%
40 to 44	6%	16%	11%
45 to 49	8%	0%	4%
50 or more	12%	11%	16%
Av. age	34.0	34.1	35.0
Male	64%	60%	48%
Female	36%	40%	52%

Figure 63. Arrears/ Default and others - Age and Gender

There are no big differences in age across these three groups although there is a slightly higher proportion of females in the arrears category.

2.7.2 Income and well-being

	Paid in full	In default	In arrears
Av income	£21.2	£13.7	£18.4
Median income	£18.0k	£12.0k	£15.6k
Happy yesterday 0 to 4	9%	32%	9%
Happy yesterday 5 to 6	21%	19%	33%
Happy yesterday 7 to 10	70%	49%	56%
Anxious yesterday 0 to 4	66%	40%	50%
Anxious yesterday 5 to 6	17%	38%	20%
Anxious yesterday 7 to 10	16%	22%	28%
Satisfied nowadays 0 to 4	8%	30%	12%
Satisfied nowadays 5 to 6	21%	34%	36%
Satisfied nowadays 7 to 10	71%	36%	51%

Figure 64. Arrears/ Default and others – Income / Life ratings

As we might expect, those in default or arrears report a lower income against those who have paid in full. They also report lower life satisfaction and higher anxiety scores.

2.7.3 Regret and cost of borrowing

	Paid in full	In default	In arrears
Happy with decision	67%	30%	33%
Regret decision	23%	70%	60%
Neither	10%	0%	7%
Paid back more than expected	22%	42%	36%
Paid back less than expected	10%	4%	3%
About the same	67%	54%	61%
Didn't know what it would cost	1%	0%	0%

Figure 65. Arrears/ Default and others – Regret/ amount paid

7 in 10 of all those in default now regret the decision to take out a payday loan. This is three times higher than those who have paid the loan in full. Almost twice those in default paid back more than expected compared to those who have paid in full.

2.8 Comparison of Group 2: heavy burden debts

2.8.1 Age and Gender

	Heavy Burden	Less / no debts
Less than 25	16%	22%
25 to 29	18%	23%
30 to 34	22%	16%
35 to 39	12%	12%
40 to 44	9%	7%
45 to 49	11%	7%
50 or more	12%	14%
Av. age	35.5	34.2
Male	56%	63%
Female	44%	37%

Figure 66. Heavy Burden Debts - Age and Gender

There appears to be a slight lean towards the older generation in those who are finding debts a heavy burden. But the age profile is relatively similar in both groups.

2.8.2 Income and well-being

	Heavy Burden	Less / no debts
Av income	£19.5k	£20.5k
Median income	£16.8k	£18k
Happy yesterday 0 to 4	25%	9%
Happy yesterday 5 to 6	28%	20%
Happy yesterday 7 to 10	46%	70%
Anxious yesterday 0 to 4	41%	65%
Anxious yesterday 5 to 6	24%	18%
Anxious yesterday 7 to 10	34%	16%
Satisfied nowadays 0 to 4	30%	8%
Satisfied nowadays 5 to 6	35%	21%
Satisfied nowadays 7 to 10	34%	71%

Figure 67. Heavy Burden Debts – Income and life ratings

Despite there being no major differences in income between those who find debts a heavy burden and those who don't, there is a difference in happiness/ anxiety ratings. Those with heavy burden debts are inevitably less happy and more anxious.

2.8.3 Regret and cost of borrowing

	Heavy Burden	Less / no debts
Happy with decision	36%	65%
Regret decision	51%	26%
Neither	13%	8%
Paid back more than expected	34%	23%
Paid back less than expected	4%	8%
About the same	61%	68%
Didn't know what it would cost	1%	0%

Figure 68. Heavy Burden Debts – Regret/ amount paid

Amongst those whose debts are a heavy burden just over one third are happy with their decision compared to nearly two thirds whose debts are not a burden. Paying back more than expected does seem to be linked to people who find their debts are a heavy burden.

2.9 Comparison of Group 3 vs Groups 1&2

Comparing the former group to the other two groups reveals that group 2 (accepted) and group 3 (former) are quite similar in profile. The main distinguishing features of group 3 are:

- Fractionally older
- More financially mature (and may have ‘moved on’ from payday lenders)
- Have a slightly higher level of debt

2.9.1 Age and Gender

	Group 1 (declined)	Group 2 (accepted)	Group 3 (former)
Average Age	32.6	34.5	35.5
Male/ Female Split	56% / 44%	62% / 38%	60% / 40%

Figure 69. Group 3 vs group 1&2: age and gender

The split of males / females in group 3 is very similar to that of group 2 and not vastly different from the declined group. They are slightly older but again, we don’t see a big different here.

2.9.2 Working status & Income

	Group 1 (declined)	Group 2 (accepted)	Group 3 (former)
Working full time	61%	74%	70%
Average Income	£15,900	£20,200	£20,200
Ave months survive w/out income	2.1	2.5	2.9
Regular Income	77%	81%	76%
Varies a lot	15%	13%	15%
Varies a lot each week	39%	20%	26%
Varies a lot each month	59%	71%	68%

Figure 70. Group 3 vs group 1&2: working status and income

Less of the former group are in full time work compared to those who have been accepted for a payday loan. But the number of months they report that they could survive without income is slightly longer.

2.9.3 Debt levels

Group 2 and group 3 levels of debt are similar, further indicating group 3 are similar to group 2.

	Group 1 (declined)	Group 2 (accepted)	Group 3 (former)
Average level of debt	£3700	£4700	£4500

Figure 71. Group 3 vs group 1/2: debt levels

2.9.4 Personal Life & Keeping up with Bills

	Group 1 (declined)	Group 2 (accepted)	Group 3 (former)
Satisfied with Life	6.5	7.0	6.8
Anxious yesterday	3.7	3.5	3.7
Happy yesterday	6.8	7.1	7.0
Keeping up with bills	77%	84%	85%
Financial difficulties	22%	14%	14%
Better financial sit. than 12 months ago	47%	48%	59%
Worse financial sit. than 12 months ago	21%	20%	13%

Figure 72. Group 3 vs group 1/2: personal life and keeping up with bills

For most ratings, the former group report very similar results compared to the accepted group. Worthy of note however is the financial situation. 59% of the former group report being in a better financial situation which is higher than both the declined and accepted people. People in group 3 therefore may be claiming an improved situation because they are no longer using payday loans - or they are not using payday loans because they are in an improved situation.

2.9.5 Understanding of credit score

	Group 1 (declined)	Group 2 (accepted)	Group 3 (former)
Mean score	6.7	7.1	7.1
% giving a score of 0-6	39%	33%	32%
% giving a score of 9-10	31%	38%	40%

Figure 73. Group 3 vs group 1&2: understanding of credit score

There is no real difference here between the former group and those who have been accepted.

2.9.6 Delayed reward

The amount of money required to convince someone to wait for a prize can be considered a measure of impulsivity.

	Group 1 (declined)	Group 2 (accepted)	Group 3 (former)
Amount to wait 1 month (median)	£300	£250	£200
Amount to wait 1 year (median)	£1,000	£1,000	£1,000

Figure 74. Group 3 vs group 1&2: delayed reward (medians)

The former group do seem to indicate a more measured approach to this measure of 'delayed reward' compared to the other two groups. They would happily wait 1 month for a smaller increase in the £1,000 prize, which implies they are less likely to 'jump into' a payday loan as they might have done previously.

	Group 1 (declined)	Group 2 (accepted)	Group 3 (former)
Financial difficulties: wait 1 month (median)	£500	£500	£250
Keeping up: wait 1 month (median)	£300	£200	£100
Financial difficulties: wait 1 year (median)	£1,400	£1,500	£3,000
Keeping up: wait 1 year (median)	£1,000	£1,000	£1,000

Figure 75. Group 3 vs group 1&2: delayed reward vs financial difficulties (medians)

As we might expect those in financial difficulties are more impatient when it comes to waiting for a reward. Those keeping up with bills would be more likely to wait one year or one month for a smaller reward versus those in financial difficulty.

Regardless of whether financial difficulties are being experienced or not, there is some evidence to suggest that groups 1 and 2 are a little more impulsive than group 3, especially when looking at the median amount people are prepared to wait for 1 month.

2.9.7 Interest rate understanding

	Group 1 (declined)	Group 2 (accepted)	Group 3 (former)
1 month – correct answer	64%	72%	70%
2 months – correct answer	42%	39%	43%

Figure 76. Group 3 vs group 1&2: understanding of interest rates

As previously, our former group show a similar level of interest rate understanding as with group 2.

2.9.8 Cost of loan as expected

	Loan cost more than expect.	Loan cost as expect.
1 month interest right	24%	68%
1 month interest wrong	25%	65%
Compound interest right	24%	69%
Compound interest wrong	25%	65%

Figure 77. Group 3 vs group 1&2: understanding of interest rates

Interestingly we don't see a real variation in the loan cost expectation amongst those who answer correctly and incorrectly in terms of our interest questions.

3. Use of HCSTC

3.1 Use of HCSTC lenders

3.1.1 Lender brands used (and recalled)

All respondents were asked which lenders they used for their most recent loan. Not surprisingly, those declined and former were less able to recall the lender they used. Nonetheless, the name of the lender could not be recalled by 1 in 10 (11%) of those accepted (group 2).

	Group 1 (declined)	Group 2 (accepted)	Group 3 (former)
Not able to recall name of lender	33%	11%	27%

Figure 78. Q3.9. Thinking of your most recent payday loan, which lender did you take out this payday loan from? / Thinking of your most recent application for a payday loan, which lender did you apply for this payday loan from (n=1800)

3.1.2 Reasons for choosing lenders

Amongst those that could recall their lender, the reasons for choosing them were largely *not* about the product, but more about ease of use and advertising.

	Group 1 (declined)	Group 2 (accepted)	Group 3 (former)
Used them previously	22%	23%	15%
Attracted by their advertising	16%	14%	27%
Online visibility/ top of search lists	9%	7%	4%
Recommended by friend	9%	7%	3%
Trusted brand	7%	7%	5%
Product most suited to my needs	5%	6%	7%
Cheapest	4%	6%	3%
Straightforward / easy to borrow	3%	7%	6%
Likely to accept application	5%	5%	4%
Good interest rates	3%	3%	3%
Best on PCW	2%	3%	5%
Referred by Credit Broker	1%	0%	0%
No reason	3%	3%	3%

Figure 79. Q3.10. Why did you decide to apply to that particular payday lender? (n=1446)

There were only minor differences between groups 1 and 2. Differences amongst group 3 respondents may be related to recall (as the time since taking out their latest loan was longer for former customers).

3.1.3 Ease of comparing lenders

On average, customers across all groups were middling in their rating of the ease with which lenders could be compared. About one in five gave a score of 9 or 10 out of 10.

	Group 1 (declined)	Group 2 (accepted)	Group 3 (former)
Rating out of 10	6.0	6.2	5.8
Top box (9/10 out of 10)	20%	21%	17%

Figure 80. Q3.11. On a scale of 0 to 10, how easy was it to compare payday loans sold by different suppliers (n=1800)

Populations that gave lower ratings for being able to compare lenders:

- Those in the older age group (45+) in particular older men.
- Those with higher levels of qualifications (degree level or higher)
- Those suffering financial difficulties
 - difficulty keeping up with bills
 - in a worse financial situation than 12 months ago
 - who find their debts are a heavy burden

3.2 Reasons for applying

3.2.1 Reasons for applying as opposed to something else

Whether customers are former, declined or accepted does not seem to influence the reasons for applying for payday loans. Approaching half of all customers cite the ease with which money can be acquired quickly as the reason for applying to a payday loan.

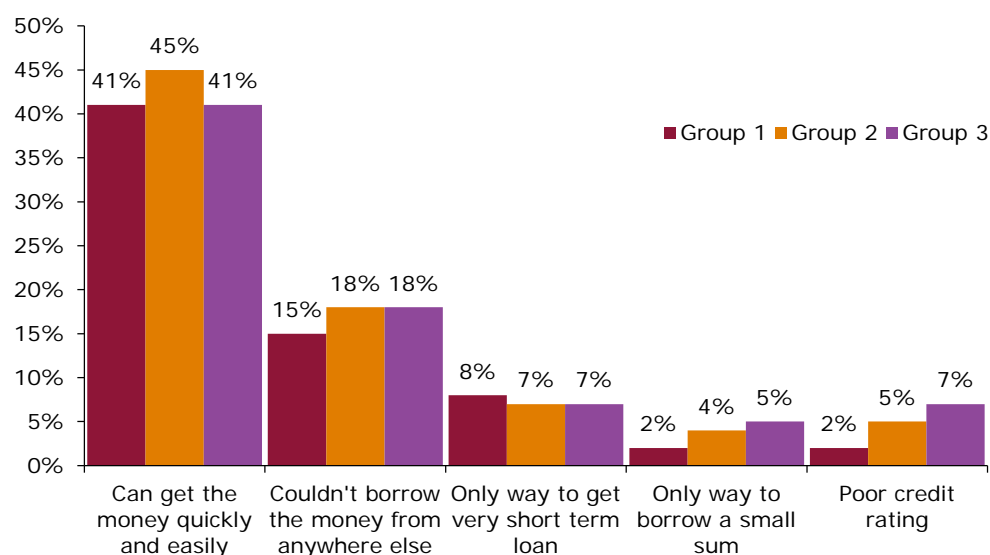


Table 1. Q3.14. Why did you apply for a payday loan as opposed to doing something else? (n=1800)

Those who “couldn’t borrow the money from anywhere else” were much more likely to be people with financial difficulties. Getting the money “quickly and easily” was a more common reason amongst those who borrowed for essential expenditure (45% gave this answer here over 39% who borrowed for more discretionary reasons).

3.2.2 Money in accessible accounts

Across all groups, three quarters of customers had no money in easily accessible savings when they applied for their last payday loan.

	Group 1 (declined)	Group 2 (accepted)	Group 3 (former)
Proportion with £0 in savings	73%	76%	79%
Proportion with under £200	12%	8%	5%
Proportion with £200-499	4%	4%	3%
Proportion with £500+	8%	8%	6%
Don't know/ prefer not to say	5%	6%	7%
Mean amount in savings	£117	£177	£149

Figure 81. Q3.15. Approximately how much money did you have in easily accessible savings accounts when applying for a payday loan? (n=1757)

Whilst a similar proportion have zero funds in each group, group 1 (declined) customers are less financially secure, taking mean savings as a measure of this - a finding consistent with other measures too.

3.2.3 Reasons for not using savings

The reasons for not accessing savings are largely because the savings were insufficient to meet the need (c 4 in 10 of those with savings).

	Group 1 (declined)	Group 2 (accepted)	Group 3 (former)
Insufficient money available for needs	46%	35%	41%
Prefer to keep savings untouched/ other use	17%	30%	10%
I was keeping money for rainy day / emergencies	15%	11%	12%

Figure 82. Q3.16. Why did you prefer to apply for a payday loan rather than use money in easily accessible savings accounts? (n=350)

3.3 Use of loan / importance of loan

3.3.1 Planned use of first loan

When customers first take out a payday loan, it’s typically for a mix of reasons, and not always for essential expenditure by any means. There are few differences between the groups.

	Group 1 (declined)	Group 2 (accepted)	Group 3 (former)
Living Expenses	26%	30%	31%
Bills	20%	25%	25%
Event	15%	16%	9%
Large Purchase	12%	6%	5%
Vehicle	8%	6%	9%
Housing	6%	6%	7%
Repair/ Replace	5%	5%	5%
Repay debt	6%	5%	4%
Family	2%	4%	2%
Other	13%	13%	19%

Figure 83. Q3.17. Thinking of the first time you applied for a payday loan. What did you plan to use the loan for? (n=1800)
(note: more than one response can be given)

The declined group appear slightly less likely to use their Payday loan on Living Expenses and Bills and appear slightly more likely to be using for a large purchase.

3.3.2 Planned use of latest loan (Group 2)

Amongst those accepted, the reasons for taking out the current loan follow a similar pattern:

	First loan Group 2 (accepted)	Last loan Group 2 (accepted)
Living Expenses	30%	28%
Bills	25%	22%
Event	16%	17%
Large Purchase	6%	6%
Vehicle	6%	6%
Housing	6%	7%
Repair/ Replace	5%	5%
Repay debt	5%	7%
Family	4%	4%
Other	13%	13%

Figure 84. Q3.18. At the time of applying for this current payday loan what did you plan to use the loan for, even if you ended up using it for something else? At the time of applying for this current payday loan what did you plan to use the loan for? (n=1005 / 961)

The majority used their latest loan as planned (95%). The small proportion that did use the funds in an alternative way, did so for more essential things typically such as food (17%), day-to-day living expenses (11%), bills (6%) and many other elements. One in 6 mentioned a bigger ticket item such as a sofa, or large consumer electronics.

3.3.3 Importance of the loan (Group 2)

Response is split amongst those recently accepted for a loan, about whether the loan was needed.

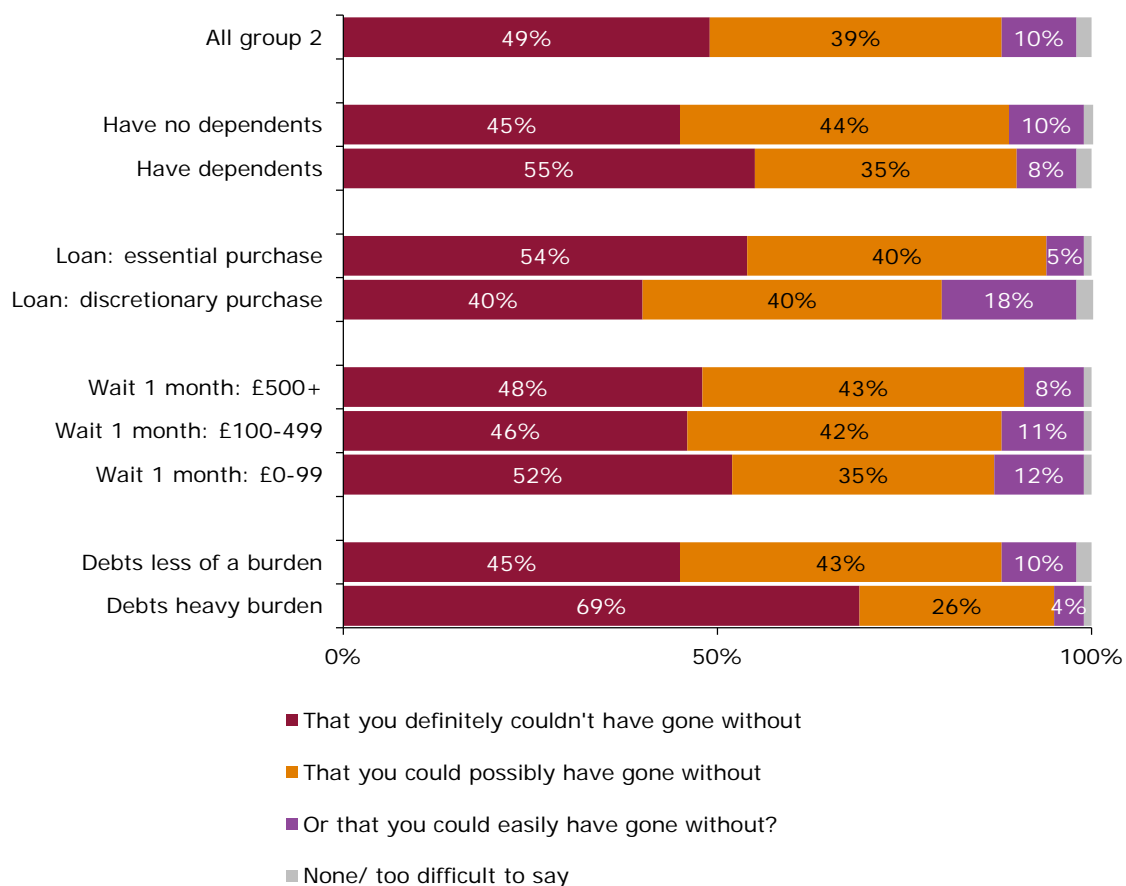


Figure 85. Q3.22. Thinking of your last payday loan would you say this money was something... (n=959)

On the whole about half say it was definitely something they needed and could not have gone without. There are however some small but significant differences between groups. Those more likely to state the loan was something they definitely could *not* have gone without:

- Those with dependents
- Those whose loan was for an essential purchase
- Those whose debts are a heavy burden

There are no substantial differences amongst those who are considered more or less impulsive.

3.4 Other sources of finance

3.4.1 Alternative ways to borrow money

Amongst those accepted for a loan, about half considered other sources of finance, and half did not.

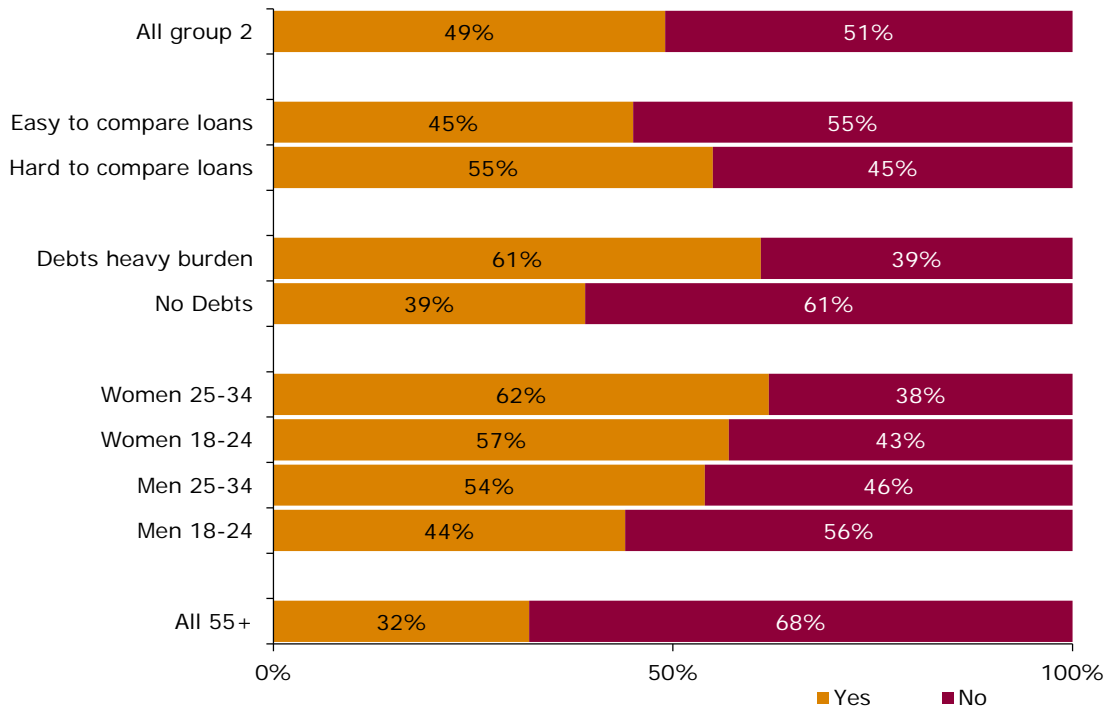


Figure 86. Q3.23 Before you applied for this payday loan, did you consider any alternative ways to borrow the money? (n=959)

The older age group (55+) and male payday customers more likely *not* to consider other alternatives.

Interestingly there is only a small difference between those finding comparing loans easy and those finding comparing difficult, implying that the ease with which loans are compared is not a big factor in the decision to consider alternatives.

3.4.2 Other sources considered

When pressed, a third did not consider any other sources of finance.

	Group 1 (declined)	Group 2 (accepted)	Group 3 (former)
Did not consider alternatives	33%	36%	35%
Loan from family	26%	33%	25%
Bank or building society	12%	13%	17%
Loan from friend	9%	15%	9%
Another payday lender	9%	4%	8%
Credit card	2%	3%	2%
<i>Loan from friend and loan from family</i>	6%	10%	5%
<i>Loan from family and bank/ building society</i>	1%	0%	1%

Figure 87. Q3.24a. When applying for a payday loan, where else did you consider borrowing the money from? (n=1800)

The most common alternative considered was a loan from friends or family and also a bank or building society. Most did not consider more than one alternative source, with the most common combination as both friends and family. A tiny fraction considered formal and informal lenders (1% or less).

4. Customer experience of lenders

4.1 Feelings about the decision

4.1.1 Whether being declined was the right decision

The majority of those whose loan application was declined felt this decision was for the best (63%).

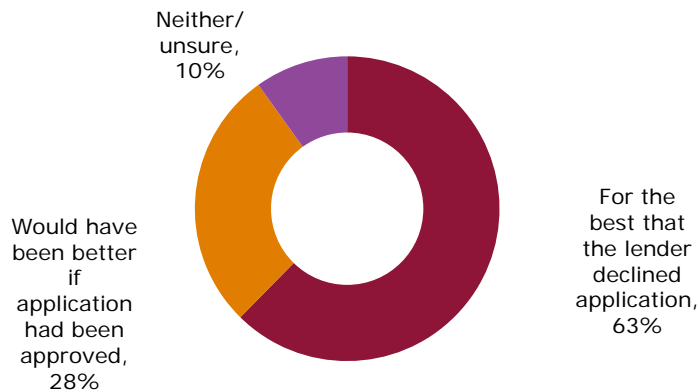


Figure 88. Q3.32a. Looking back, do you feel that it was for the best that your payday loan application was declined or would it have been better for you if the loan had been approved? (n=489)

“It was for the best” is higher amongst females, especially those in the younger age groups of 18-24 (75% felt it was for the best). Interestingly, this proportion is also higher amongst those living rent-free and those who feel they could survive an income loss for the longest period, suggesting for them that this application for a loan was not essential. Whilst bases are small, there is also some suggestion that those who considered turning to informal sources of borrowing (such as friends and family) also felt the decision to decline the loan was for the best.

Amongst those declined a payday loan (Group 1), considering alternative finance sources has very little bearing on whether being declined was for the best. Family and friends are equally popular, regardless of the view of whether being declined was for the best, as shown in the table below.

	Was for the best	Accepted would have been better	Neither/ not sure
Considered loan from family	28%	24%	27%
Considered loan from friend	10%	9%	8%
Considered another payday lender	10%	7%	11%
NET: Considered any sources	66%	68%	68%
NET: Considered no sources / nowhere else	34%	32%	32%

Figure 89. Q3.24a. When applying for a payday loan, where else did you consider borrowing the money from? / Q3.32a. Looking back, do you feel that it was for the best that your payday loan application was declined or would it have been better for you if the loan had been approved? (n=489)

Following the decision to be declined, those stating it was for the best were significantly less likely to then turn to formal borrowing (11%), compared to those who felt being accepted would have been better (23%), or were neutral about the decision (24%). This is probably because those stating it was for the best either did nothing (i.e. went without) or were able to use informal (cheaper) sources.

4.1.2 Happy or regret the decision to use a payday loan

Amongst those who have been accepted for a loan recently, in the most part customers were happy with the decision (63%).

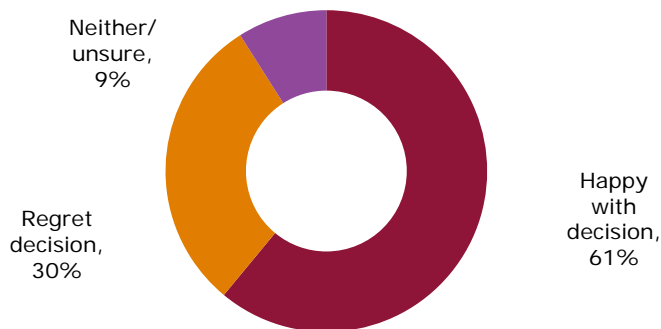


Figure 90. Q3.32. Looking back, are you happy with your decision to use a payday loan or do you now regret this? (n=959)

This varied a little by age, with those aged 45+ are the most happy (70%), in particular males aged 45+ (74%). As seen with those who felt the decision to be declined was correct, amongst those accepted the people living rent free were more likely to regret the decision (35%).

The largest differences of opinion amongst this group of accepted customers are related to the extent to which they were able to keep up with bill repayments and whether the last loan was in arrears.

	Happy	Neutral	Regret
Overall	61%	9%	30%
Keeping up with bills	66%	9%	25%
Having difficulty	30%	8%	61%
Employed full time	62%	9%	29%
Unemployed	48%	6%	46%
Last loan: paid in full	67%	10%	23%
Last loan: in arrears	33%	7%	60%
Last loan: in default	30%	-	70%
Impulsive (£500+ to wait 1 month)	58%	9%	33%
Not impulsive	64%	9%	26%
Loan for essential expenditure	57%	11%	33%
Loan for discretionary expenditure	63%	8%	30%

Figure 91. Q3.32. Looking back, are you happy with your decision to use a payday loan or do you now regret this? (n=959)

A slight difference is also seen when considering multiple borrowing. For the group taking fewer (1-3) payday loans in the last 12 months the proportion happy with the decision is slightly larger (68%), compared to those taking more loans (56%).

The extent to which the decision is regretted varies by financial circumstances:

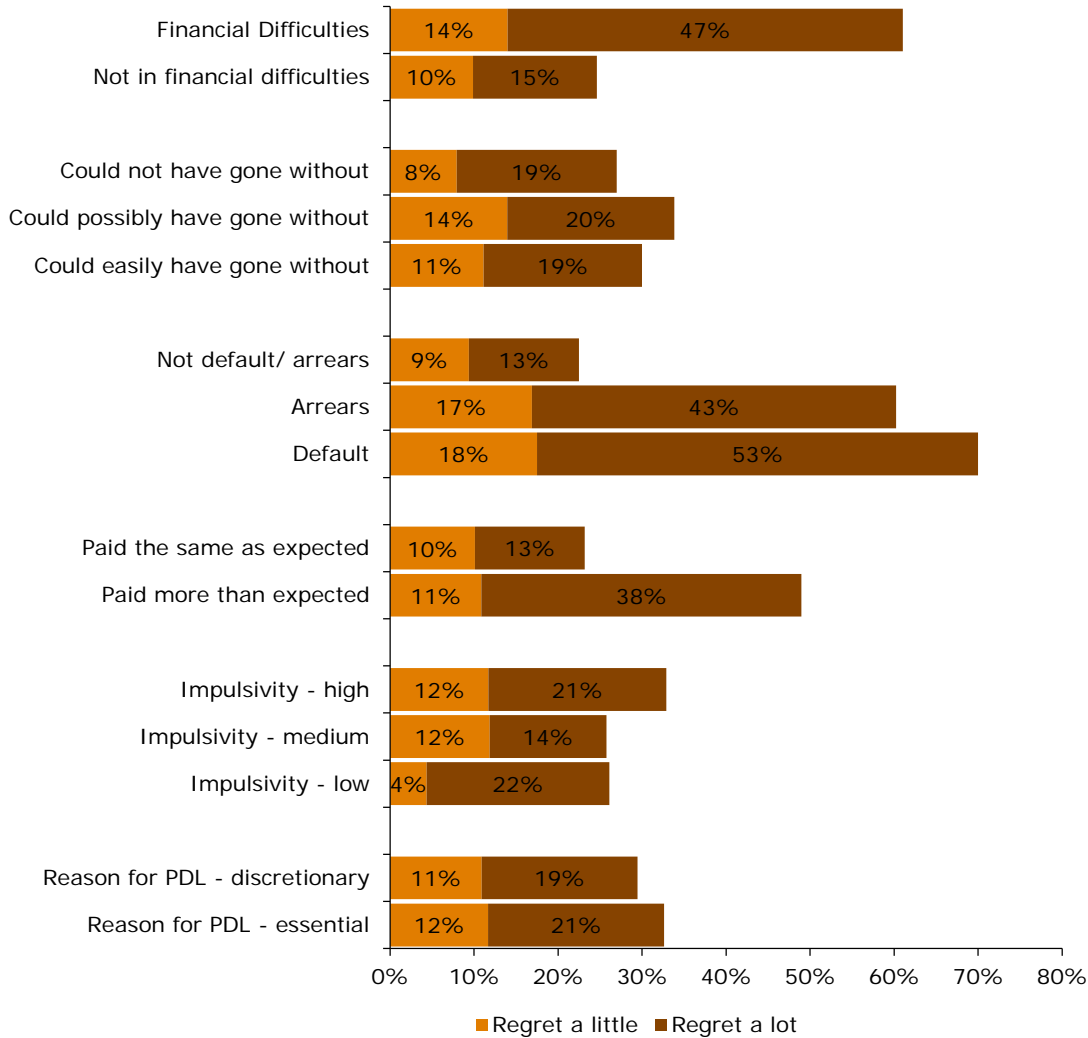


Figure 92. Q3.33. How much do you regret this decision? (n=270)

Reasons for regretting the decision are typically related to the high costs (44%) in particular amongst those with *higher* incomes (53%), the struggle to repay the loan (17%) and the negative impact on credit rating (11%).

The following tables look in more detail at those accepted for a loan (Group 2) and whether they are happy or regret the decision.

	Happy	Neutral	Regret
Total amount repaid was ... more than expected	17%	24%	41%
Total amount repaid was ... less than expected	9%	5%	6%
Total amount repaid was ... the same as expected	74%	71%	52%
Don't know	0%	-	1%
In future ... would apply for payday loan again	46%	29%	12%
In future ... would try alternative method	29%	29%	44%
In future ... would go without	21%	39%	42%
Don't know	4%	4%	2%

Figure 93. Q3.32 Looking back, are you happy with your decision to use a payday loan or do you now regret this? / 3.13. Taking everything into account, was the total amount that you had to repay more than, less than or about the same as you had expected when you took out this payday loan? / 3.35. And if in the future you needed to borrow a similar amount of money for a similar purpose, would you apply for a payday loan again, would you try an alternative method of getting the money, or would you go without the money? (n=959)

Those regretting the decision were significantly more likely to have paid more than expected (41% vs 17%). Similarly, those who regret the decision to use payday lending were significantly less likely to apply for a payday loan again (12% vs 46%).

4.2 Reuse of payday loan

Those recently accepted for a payday loan were the most likely group to borrow from a payday lender again (34%), whereas those in the declined and former groups had a greater tendency to say they would try to go without borrowing at all.

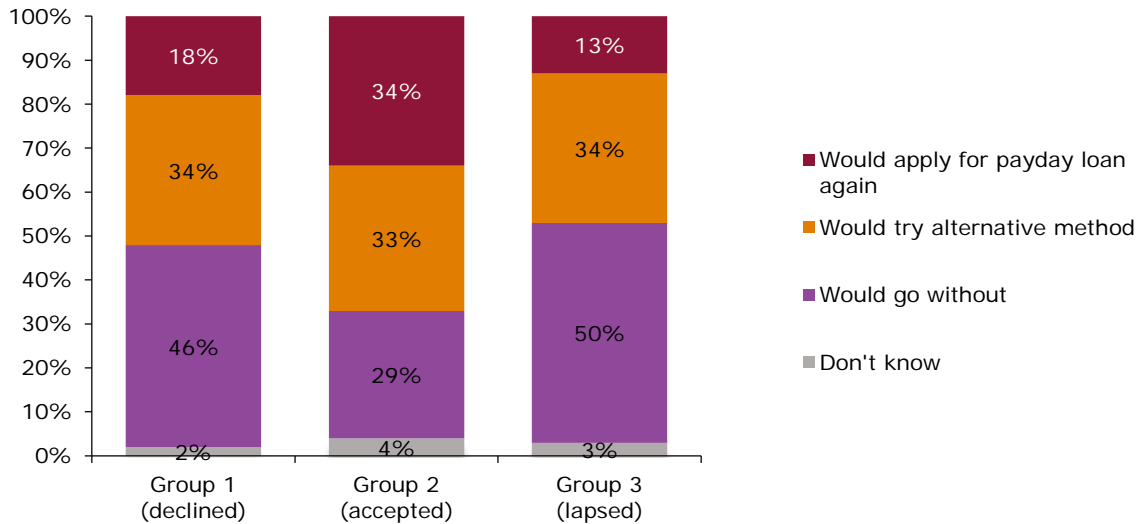


Figure 94. Q3.35. And if in the future you needed to borrow a similar amount of money for a similar purpose, would you apply for a payday loan again, would you try an alternative method of getting the money, or would you go without the money? (n=1800)

The feeling for reuse was slightly stronger amongst those who have no debts or have no difficulty paying their debts, across all customer groups.

Amongst the former group, those most likely to say they would go without are those who have taken fewer loans in the last 12 months (56%, Group 3). Those on lower incomes of less than £10k were also more likely to say they would go without in Group 3 (64%).

Amongst current users (Group 2), the Price Cap also seems to have a small impact on reuse. Those aware of the change in regulations were a little more likely (46% prompted, 39% spontaneous) to apply for payday loan again.

4.3 Trust in lenders

4.3.1 Trust in lenders to respect the rules

The amount of trust customers have in payday lenders follows a similar pattern to the likelihood to reuse:

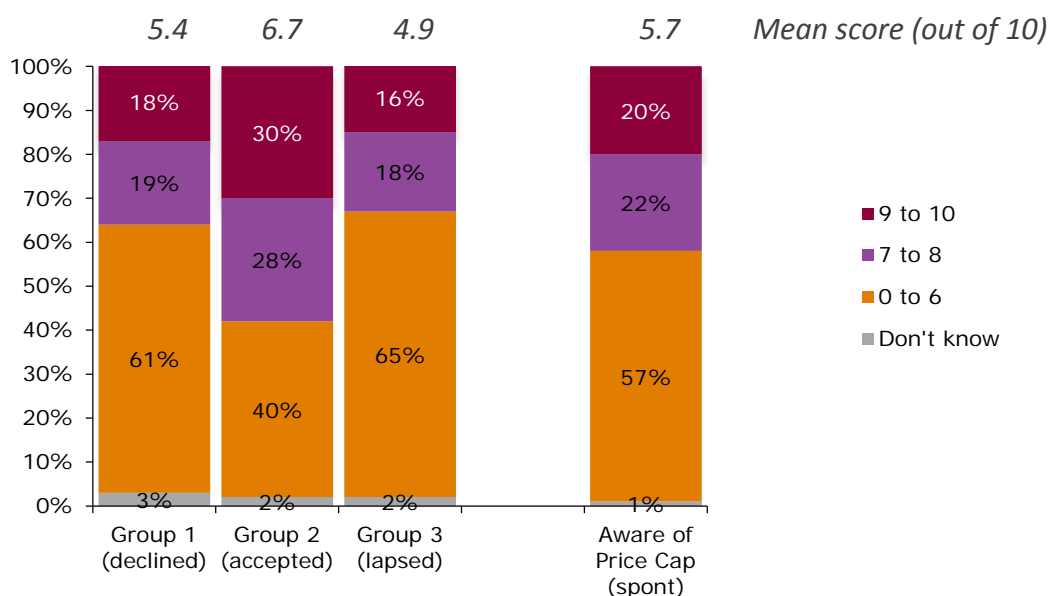


Figure 95. Q3.36. On a scale of 0 to 10, to what extent do you trust payday lenders to respect the rules and regulations protecting consumers (where 0 is not at all and 10 is totally)? (n=1800)

Amongst Group 1 (declined) customers, the sub-populations for which trust is lower are those unemployed (4.9) or not working for other reasons (5.1), those on the lowest incomes (5.1) and those with issues keeping up with bills or with larger debts (4.0 to 4.8).

For those who are no longer using payday lending (Group 3), populations providing lower trust scores are slightly different: those aged 18-24 (4.6), in particular younger men (4.2), and those whose debts are a heavy burden (4.3).

Amongst those who have stopped using payday loans because their financial circumstances have improved, trust levels are marginally higher (5.1 out of 10). Those who have stopped using payday loans due to a negative impression of payday lending, unsurprisingly, trust the industry significantly less (3.9 out of 10). Those who have stopped using payday loans because they are avoiding borrowing altogether also trust the industry less (4.1 out of 10).

4.3.2 How trust has changed in the last 2 years

Again, the same pattern with those accepted for a loan recently being more positive than those either declined or who are former users, is evident (although slightly less pronounced).

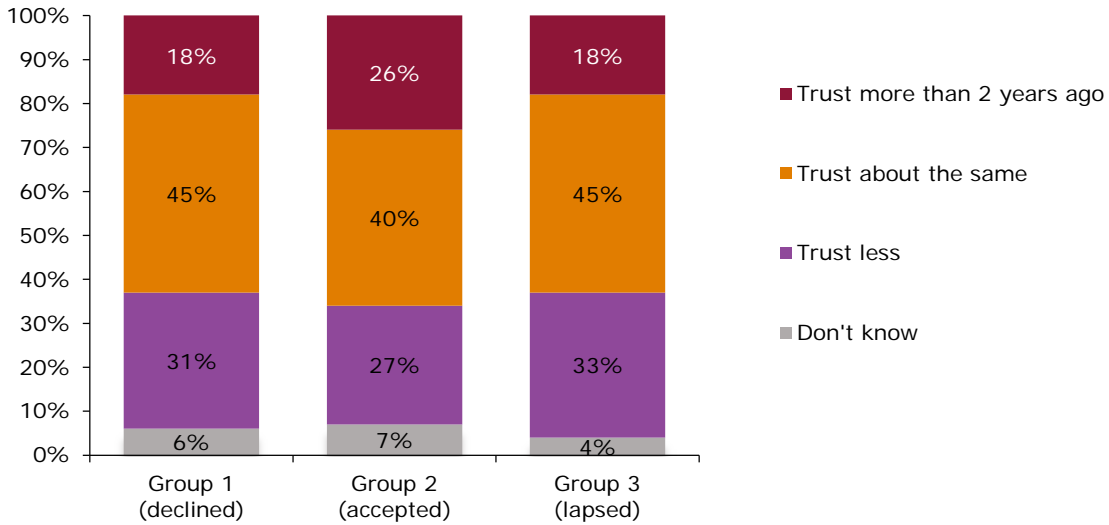


Figure 96. Q3.37. If I were to ask you this question a couple of years ago do you think you would have answered the same? (n=1800)

Amongst groups 1 and 2 customers (i.e. those currently applying), there is very little evidence to suggest this rating of trust has been influenced by the Price Cap.

4.4 Complaints

4.4.1 Cause for complaint

Just under 1 in 10 (9%) of accepted payday loans customers experienced an issue where they felt they had a legitimate cause for complaint. This is higher amongst the group of customers who have stopped using payday loans (17%), perhaps indicating that a cause for complaint such as poor service might have been a reason to stop to using loans of this type.

	Group 1 (declined)	Group 2 (accepted)	Group 3 (former)
Felt they had a legitimate cause for complaint	12%	9%	18%
Did not	88%	91%	82%

Figure 97. 3.38. Did you experience any problem with the payday loan or payday lender where you thought you had a legitimate cause for complaint? (n=1800)

Those whose debts are a heavy burden were more likely to have experienced an issue (32%, 20% and 33% respectively for the 3 groups).

There is also a relationship between levels of trust and complaints, with those with a legitimate cause for complaint reporting lower trust levels.

4.4.2 Nature of complaint

Complaint reasons were quite diverse, but can be summarised into three main categories:

- unexpected charges
- poor customer service
- unexpected outcomes

The fuller breakdown of reasons by group is as follows:

	Group 1 (declined)	Group 2 (accepted)	Group 3 (former)
Incorrect charges applied	22%	25%	9%
Arrears handling	16%	17%	22%
Poor customer service	12%	11%	6%
Mis-sold product	12%	5%	9%
High interest rate or charges	9%	4%	9%
Affordability assessment	7%	8%	3%

Figure 98. Q3.39. If you did complain, what was this complaint referring to? (n=186)

Base sizes are small, but it is possible the way payday lenders approach chasing and claiming payments from customers who have missed their repayment date might have influenced customers to lapse.

4.4.3 Detriment from the complaint

Those actually complaining were asked to rate out of 10 the extent to which they felt they suffered detriment (with either the loan or the lender).

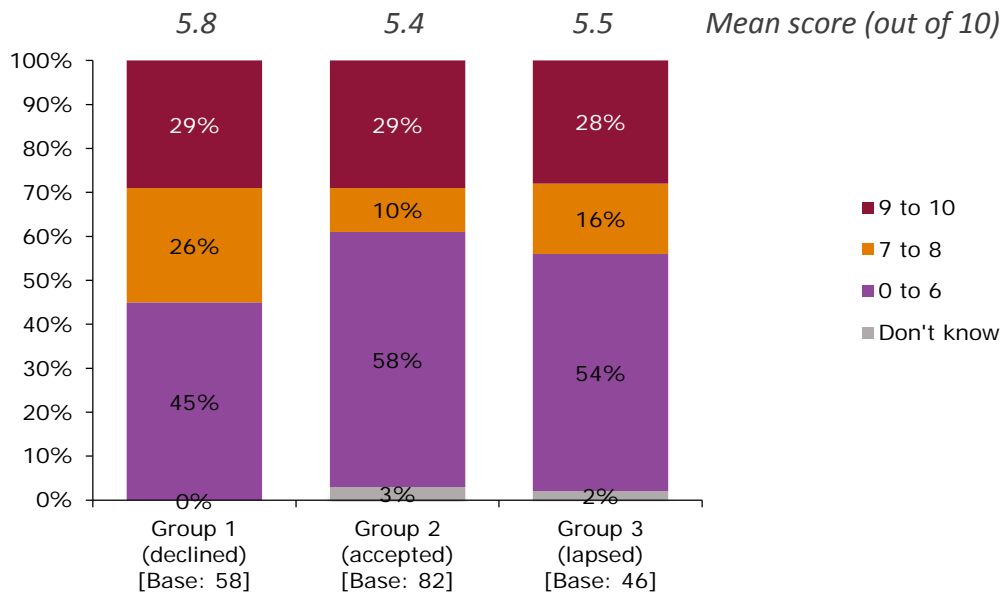


Figure 99. Q3.40. On a scale of 0 to 10 where 0 is "none" and 10 is "totally", to what extent have you suffered detriment as a result of problems experienced either with the payday loan or the payday lender? (n=166)

Although the differences are small, again those in group 2 seemed to rate their experience slightly better on this measure, although group 1 ratings might be influenced by the outcome of their latest application.

4.5 Price cap awareness

4.5.1 Spontaneous awareness of changes to payday products in last 2 years

Spontaneous awareness of changes, in particular of the price cap, was quite low, although there were some small differences by group.

	Group 1 (declined)	Group 2 (accepted)	Group 3 (former)
Stricter lending criteria/affordability assessments	8%	10%	8%
Price cap	4%	6%	11%
Increased regulations/restrictions	5%	6%	9%
Changes relating to APR (general)	2%	2%	3%
Not aware of any changes	69%	66%	63%

Figure 100. Q3.41. Are you aware of any changes to payday loan products over the last few years? (n=1800)

Awareness of the price cap appears more prevalent amongst those who are former users (11%), possibly indicating this is related to lapsing, or reflecting the slightly more ‘financially mature’ profile.

4.5.2 Prompted awareness of the price cap

When asked directly, far more customers claim to be aware of the cap.

	Group 1 (declined)	Group 2 (accepted)	Group 3 (former)
Aware that since 2015 the costs of payday loans has been capped by the FCA	28%	36%	39%

Figure 101. Q3.42. Did you know that since 2015 the cost of payday loans has been capped by the Financial Conduct Authority (FCA)? (n=1800)

There is a strong correlation with age across all groups, revealing that the older you are the more likely you are to have (or claim) awareness.

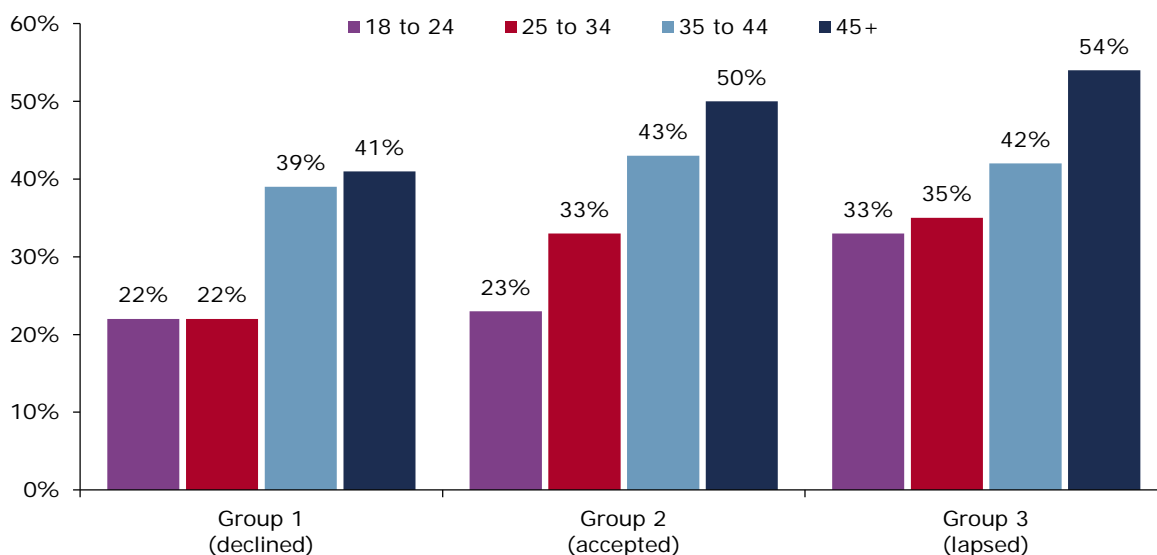


Figure 102. Q3.42. Did you know that since 2015 the cost of payday loans has been capped by the Financial Conduct Authority (FCA)? (n=1800)

Age is also related to income and the ability to survive longer without borrowing, hence awareness is also related to apparent ‘affluence’.

Two other groups of interest showed elevated prompted awareness of the price cap:

- Group 2 (accepted) customers who did not consider any other sources of borrowing (42%)
- Group 2 (accepted) customers whose trust in payday lenders increased from 2 years ago (44%)

4.5.3 Price cap awareness tested knowledge

Most customers of payday loans claiming awareness could not correctly name an element of the price cap, but this does not automatically invalidate their claimed awareness.

	Group 1 (declined)	Group 2 (accepted)	Group 3 (former)
Could name at least one element of the price cap correctly	1%	2%	2%

Figure 103. Q3.43. Do you know what the price cap on payday loans is? (n=1800)

Those taking more payday loans in the last 12 months seemed to be the most able to quote detail of the price cap (18% of those taking 4+ loans compared with 8% of those taking 0-1 loans).

Looking at awareness by levels of trust in the industry:

	Aware of Price Cap (spont)	Aware of Price Cap (prompted)	Unaware of Price Cap
Group 1 - high trust (9-10)	14%	18%	16%
Group 1 - middling trust (7-8)	26%	17%	21%
Group 1 - low trust/DK (0-6)	60%	65%	63%
Group 2 - high trust (9-10)	27%	32%	30%
Group 2 - middling trust (7-8)	21%	30%	27%
Group 2 - low trust/DK (0-6)	52%	38%	43%
Group 3 - high trust (9-10)	10%	25%	14%
Group 3 - middling trust (7-8)	23%	25%	13%
Group 3 - low trust/DK (0-6)	67%	50%	73%

Figure 104. 3.36. On a scale of 0 to 10, to what extent do you trust payday lenders to respect the rules and regulations protecting consumers? (n = 1800)

Amongst the former group in particular, those unaware of the price cap display lower levels of trust (73% rate trust as 0-6 in Group 3). Amongst the most informed group (that is those spontaneously aware of the price cap), trust levels are middling and sometimes lower than those aware after prompting.

5. Alternatives to HCSTC and loss of access

5.1 Reasons for stopping using payday loans

Nearly two thirds (64%) of those in the former group stated that their circumstances had changed and they now no longer needed access to payday loans.

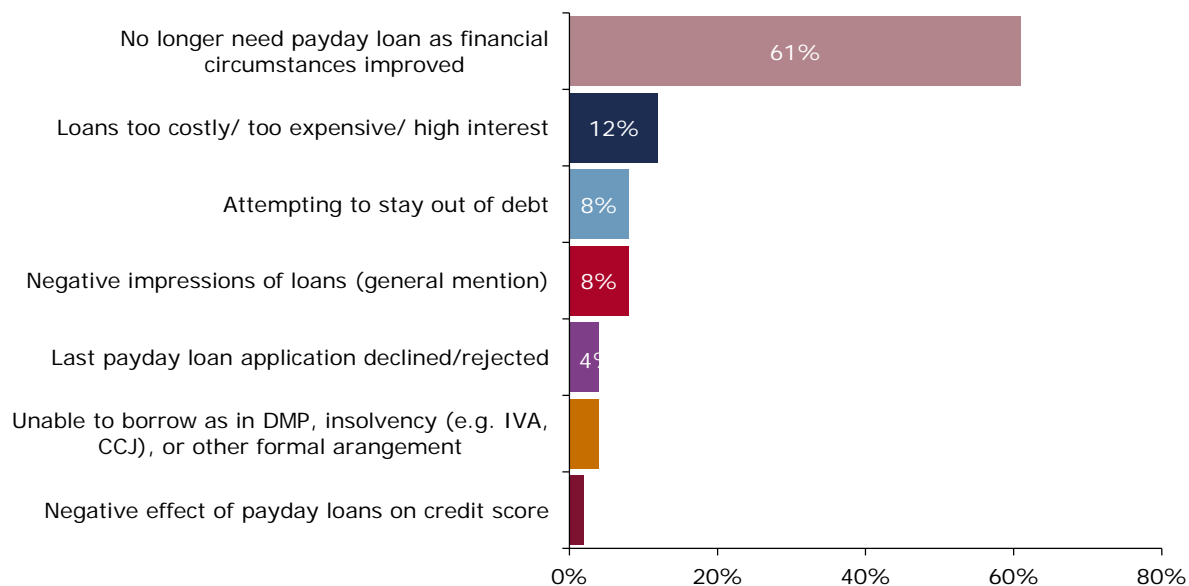


Figure 105. Q3.44. You've indicated that you have used payday loans previously but have not done so recently. What are the main reasons for this? (n=306)

Former customers provided several other reasons, mostly concerned with payday loans being seen as an expensive way to borrow. A small proportion claimed they were no longer able to access this finance: 4% stated their last application was declined and 3% stated their formal repayment plan prevented them from taking a payday loan.

5.2 Actions when a payday loan is not available

Broadly, payday loan customers are split into one of 4 camps, when without access to payday loans:

- Use other sources of borrowing (formal or informal)
- Do nothing or not act
- Take alternative action not involving borrowing money (went without, missed payments)
- Do not know what they would do without access to this finance or do something else entirely

Looking just at this general classification first:

	Group 1 (declined)	Group 2 (accepted)	Group 3 (former)
Used other formal sources of borrowing	15%	8%	10%
Used other informal sources of borrowing	25%	28%	20%
Do nothing or take no action	37%	25%	27%
Missed bill	1%	4%	8%
Cut expenditure	7%	12%	7%
Something negative	3%	6%	5%
Other or don't know	13%	23%	30%

Figure 106. Q3.29a. If you had not been able to get a payday loan on this occasion, what do you think you would have done? / When you were unable to get a payday loan on this occasion, what did you do? (n=1553)

Looking at these results in more detail:

	Group 1 (declined)	Group 2 (accepted)	Group 3 (former)
Approached/ borrowed from family	20%	23%	16%
New payday lender/ company/ doorstep loan	10%	3%	3%
Approached/ borrowed from friends	7%	8%	5%
Other sources of borrowing (unspecified)	3%	3%	2%
Got in more debt/ struggled/ been in trouble	2%	4%	5%
Had to wait until payday (wages/ benefits paid)	3%	2%	1%
Cut back (generally)	2%	3%	-
Used savings I already had	1%	3%	5%
Sold something	1%	3%	-
Bank loan/ overdraft	1%	2%	3%
Requested more time to repay/ had an arrangement	2%	1%	4%
Unable to buy food/ cutback on food/ use foodbank	1%	2%	3%
Late/ unable to pay bills (unspecified)	1%	2%	5%
Other reasons all <1%			
Nothing - nowhere else to borrow the money from	18%	9%	10%
Nothing - went without/ gave up/ managed	17%	13%	12%
Nothing - emotional/ cried/ panicked/ stressed	1%	1%	2%
Nothing - everything was/ would have been fine	1%	1%	1%
Don't know/ can't remember	3%	14%	20%

Figure 107. Q3.29a. If you had not been able to get a payday loan on this occasion, what do you think you would have done? / When you were unable to get a payday loan on this occasion, what did you do? (n=1553)

Just 2 people stated they would approach an illegal money lender of sorts, however the most common answers were to seek alternative sources of borrowing from potentially informal sources.

5.3 Using informal sources of borrowing

5.3.1 Informal sources who earn money from lending

Where respondents had stated that they either had used (declined group) informal sources of credit or would have considered using such sources (accepted and former groups) they were asked about the nature of these informal sources of borrowin. Most informal sources considered are not regular lenders as a means of earning money:

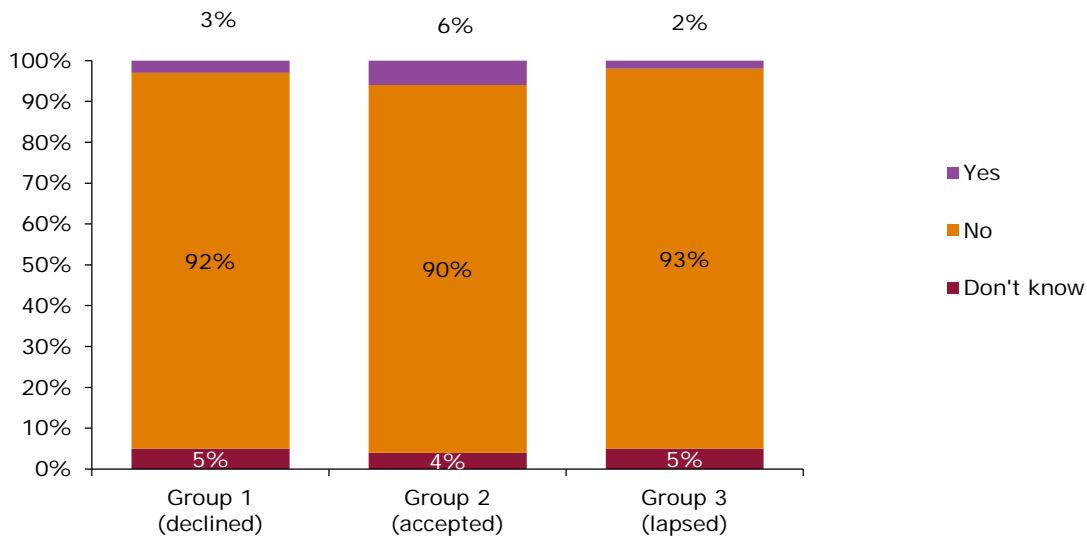


Figure 108. Q3.25. Do you know if the person you would go to lends money regularly to other people as a way of earning money? (n=601)

Rebased on all respondents, and taking “yes” and “don’t know” together, the largest proportion of people who could be affected by informal lenders who could earn money from lending is 3%.

Similarly, almost all informal lending is not subject to interest.

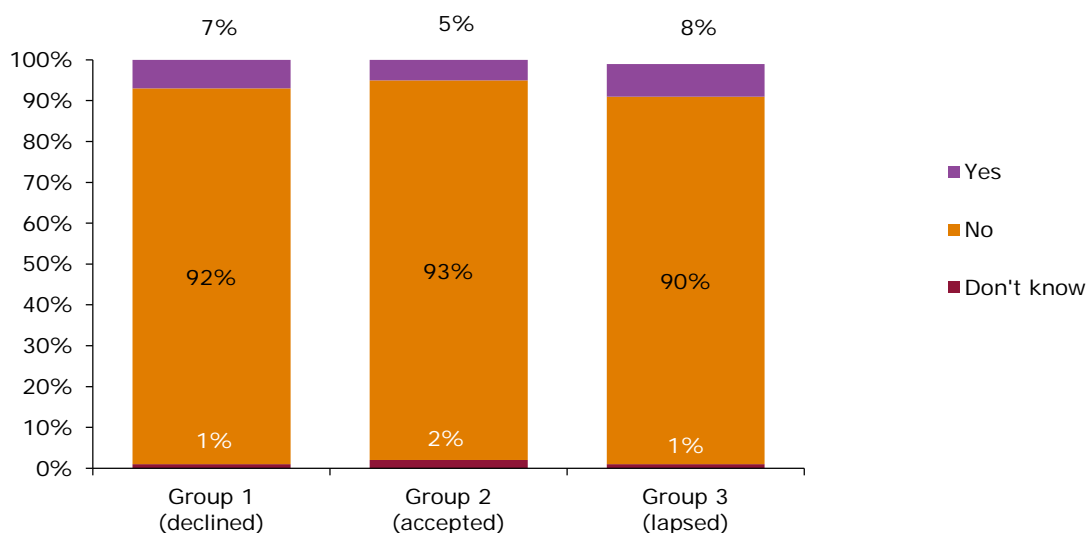


Figure 109. Q3.26. If you borrowed from this person would you expect to have to repay more than you borrowed? (n=601)

Again, rebasing on all respondents, and taking “yes” and “don’t know” together, the largest possible estimation of the proportion of people who could be affected by informal lenders who could earn money from lending is 3% of the population.

Of the very few who stated they were aware that the person they would go to would charge, the typical amount of interest charged for a £100 loan varied from £0 to £400, with an average of £67 interest on top of the £100 loan.

5.3.2 Outcome of not paying on time

Three quarters felt the outcome of not repaying the loan on time would be forbearance. Worth noting that this base includes all who used informal sources of lending including friends and family and not just potential illegal money lending sources.

	Group 1 (declined)	Group 2 (accepted)	Group 3 (former)
Forbearance	73%	76%	76%
Harmed relationship	10%	9%	12%
Forgive debt completely	2%	4%	2%
Additional costs of late payment	5%	2%	2%
Additional requests for payment	2%	3%	4%
Violence, intimidation or threats	4%	2%	-
Other or don't know	4%	8%	10%

Figure 110. Q3.28. If you were unable to repay them on time what do you think would happen? (n=601)

Very few, equating to 12 respondents to the survey (c. 0.7%) felt that there would be a violent or intimidating outcome.

5.3.3 Change in relationship with informal lender

Amongst those in group 1 who were declined a loan and used a source of informal borrowing, 9 in 10 (89%) saw no change in the relationship with the informal lender since borrowing.

Just one person stated the relationship became hostile, and 3 people said the relationship had worsened.

5.3.4 Repeat borrowing from informal lender

In the same situation, most customers (81%) would expect to ask and use the same informal lender again. Worth noting that the base here is relatively small (87 people).

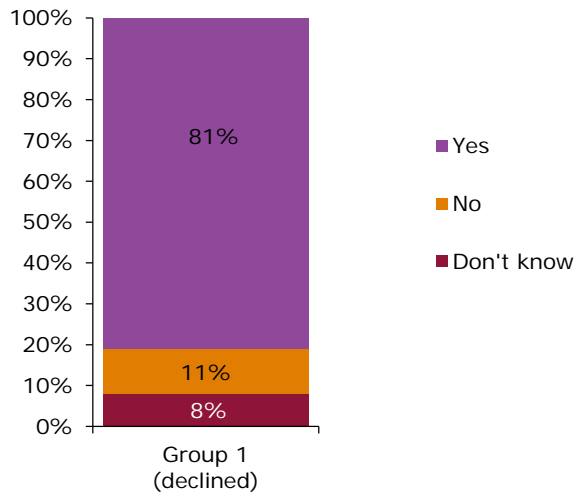


Figure 111. Q3.31. If you were in the same situation would you borrow from that individual again? (n=87)

5.4 Item count: using illegal money lenders

Across the research there is some evidence to suggest a very small proportion of customers have used or considered using illegal money lenders. For the former group we note that the sample size was small and so we treat these results with caution.

	Number of mentions (from 1800)		
	Group 1 (declined)	Group 2 (accepted)	Group 3 (former)
Struggling to keep up with repayments from illegal lender or loan shark	-	1	-
Consider borrowing from illegal lender or loan shark when applying for payday loan	1	2	-
When unable to get payday loan, approached or considered approaching illegal lender	0	2	-
Borrowed or considered borrowing from person who lends to earn money	5	20	2
Would be charged interest if borrowing from person who lends to earn money	11	18	6
May experience violence, intimidation or threats if were unable to repay on time	5	6	-

Figure 112. Evidence of illegal money lender use (number of mentions)

This is supported to some extent by the item count approach that was used within the survey to establish the number of occasions respondents had borrowed from an illegal money lender in the last 12 months.

Note that sample sizes are small and the item count itself is subject to error margins that may negate these findings

	Group 1 (declined)	Group 2 (accepted)	Group 3 (former)
<i>Base</i>	243	500	136
Average items: list <u>without</u> "illegal money lender"	0.39	0.41	0.36
<i>Base</i>	246	505	170
Average items: list <u>with</u> "illegal money lender"	0.39	0.49	0.51
<i>Difference</i>	0.00	0.08	0.15
Estimated respondents stating additional option	0	40.4	25.5

Figure 113. Q2.26. Below are 4/5 [list A/B] things. We do not need to know which ones apply to you personally, just how many. Please tell us how many of them apply to you in the last 12 months. (n=1800)