# Relending in the high cost credit market

## Narrative report

March 2020

# Contents

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# 1. Introduction

## Background

The Financial Conduct Authority (FCA) takes a forward looking and strategic approach in its supervisory work. This includes looking both at the conduct of individual firms and, more widely, at how retail and wholesale markets are evolving. As part of the FCA's work supervising retail lending firms, they have identified that relending in the high cost credit market is prevalent, and that due to the characteristics of customers the risk of harm is high. 6 key products were of interest, namely:

- High cost short term credit (often known as payday loans)
- Home collected credit (HCC)
- Rent to own (RTO)
- Guarantor loans
- Logbook loans
- High cost personal loans (HCPL)

Primary consumer research was needed to understand consumers' experiences, motivations and characteristics around repeat borrowing within each of these. This will be used to help inform the FCA's analysis of the impacts of relending alongside evidence provided by firms.

## Objectives

The overarching objective of the study was to provide a deep understanding of repeat borrowing in the high cost credit market. Specifically, there was a need to establish:

- Reasons for repeat borrowing
- The extent to which consumers' decisions to reborrow were being driven by the consumers themselves or by lender activity such as marketing
- Whether consumers were being harmed by reborrowing
  - If so, how they were being harmed
  - If not, might a harm arise based on what we observed

## Methodology

This research was carried out between July and September 2019.

### Sample sourcing

The FCA approached a number of firms representing a cross section of products in the high cost credit market. These firms were asked to provide a list of customers who had met the criteria for repeat borrowing. A representative sample of these customer groups was passed via encrypted email to PwC Research to approach for interview.

Note: Most of the home collected credit and rent to own customers were interviewed about their experiences of reborrowing both before and after FCA rule changes affecting these markets came into effect and so this research will not, and was not designed to, reflect the impact of these rule changes on customer experience.

### Qualitative research – Stage 1 – 31st July to 12th September 2019

The first stage of the research involved 36 extended depth interviews with reborrowers – 6 for each product type. This was supplemented with 6 shorter depth interviews with guarantors. All participants were asked to complete a 2 week money diary in advance of their interview. The qualitative research took place across all 4 nations and a mix of urban, suburban and rural locations.

### Quantitative research – Stage 2 – 28th August to 20th September 2019

A mixed mode approach was utilised for the quantitative part of the study. Those respondents where only telephone numbers were available were invited to participate in the research via a telephone interview. All other respondents were issued with an email inviting them to participate and were informed that PwC Research would be following up with them via telephone. An online version of the survey was also available for all respondents to switch to if required.

Interviews were conducted with a representative sample of customers across each of the 6 product groups. Controls were applied so that the proportion of customers participating in an interview matched this profile hence weighting of the data was not required. Screening criteria was set, so that only those who had reborrowed within the last 12 months were allowed to complete the survey. In total, 821 surveys were completed in this phase.

# 2. Executive summary

Across the 6 high cost credit products in the study, payday loans, logbook loans, high cost personal loans, guarantor loans, rent to own and home collected credit there were differences in the demographic profile of users. Payday, guarantor and logbook loan customers were all more likely to be male while home collected credit and rent to own customers were more likely to be female. Guarantor loan users tended to be younger with nearly half under 35, and home collected credit customers had the oldest profile, with nearly half over 55. Payday, high cost personal and guarantor loan customers also tended to have higher incomes while home collected credit, logbook loan and rent to own customers had lower incomes.

**Figure 1:** Summary of demographic profiles in the quantitative sample

| Profile | Payday loan | Logbook loan | High cost personal loan | Guarantor loan | Rent to own | Home collected credit |
|---|---|---|---|---|---|---|
| **Male** | 68% | 70% | 54% | 60% | 35% | 35% |
| **Female** | 30% | 28% | 45% | 39% | 65% | 64% |
| **Age** | | | | | | |
| **18-34** | 33% | 16% | 16% | 48% | 23% | 13% |
| **35-54** | 55% | 66% | 61% | 43% | 44% | 40% |
| **55+** | 12% | 16% | 21% | 9% | 31% | 47% |
| **Household income** | | | | | | |
| **<£12k** | 4% | 15% | 1% | 6% | 27% | 44% |
| **£12k-£24k** | 40% | 45% | 34% | 37% | 45% | 37% |
| **£24k-£36k** | 26% | 16% | 24% | 22% | 15% | 4% |
| **£36k+** | 24% | 13% | 36% | 28% | 4% | 2% |
| | **PDL Summary:** Middle aged males on a higher income | **LL Summary:** Middle aged males on a lower income | **HCPL Summary:** Middle aged on a higher income | **GL Summary:** Young males on a higher income | **RTO Summary:** Middle aged females on a lower income | **HCC Summary:** Older females on a lower income |

While the consumers participating in the qualitative and quantitative research were mainly interviewed about 1 core product, many had a portfolio of different credit products both high cost and mainstream. Differences were observed when looking at the length of time people had been borrowing generally and the length of time they had been borrowing using the core product they were being interviewed about. Users of home collected credit, rent to own and high cost personal loans had generally been borrowing for longer. Overall in the qualitative research, customers across all 6 products described themselves as reluctant borrowers, using credit as a last resort. There were some exceptions to this however. More of the payday loan customers appeared to be survival borrowers, using this form of credit to get by – and often to fund existing debt – while some of the home collected credit customers could be considered lifestyle borrowers, using credit to get things they wanted as much as things they needed. There were also some differences in product holdings, with some having much bigger portfolios of borrowing than others. However, this didn't always correlate with difficulty making repayments.

The qualitative research showed that customers weren't always making active or deliberate decisions to keep borrowing. In many cases their reborrowing had become a habit formed over several years and was just part of their financial lives. That said, there was evidence of a number of behavioural biases at play: over confidence, short termism, social norming and framing.

**Figure 2:** Behavioural biases observed in the qualitative interviews

"I was off sick one day this month and there was no overtime available at work"

– **Male, 32, payday loan, Sheffield**

"Yeah [the total repayable] is not great but what other choice do I have? I just don't look"

– **Female, 32, payday loan, Sheffield**

Overly optimistic that their situation will be the same or better in the future. Not considering the likelihood of unexpected costs or loss of income

Often focusing on the weekly amount and not thinking about/ignoring the total amount repayable


Use of high cost credit and certain providers by friends/family play a huge role in reborrowing decision

Top ups often framed in isolation from existing loan which can feel more acceptable e.g. £600 vs £5,600

Weekly repayments framed in the same way

"My son introduced me. I think he got £20"

– **Female, 57, home collected credit, Chesterfield**

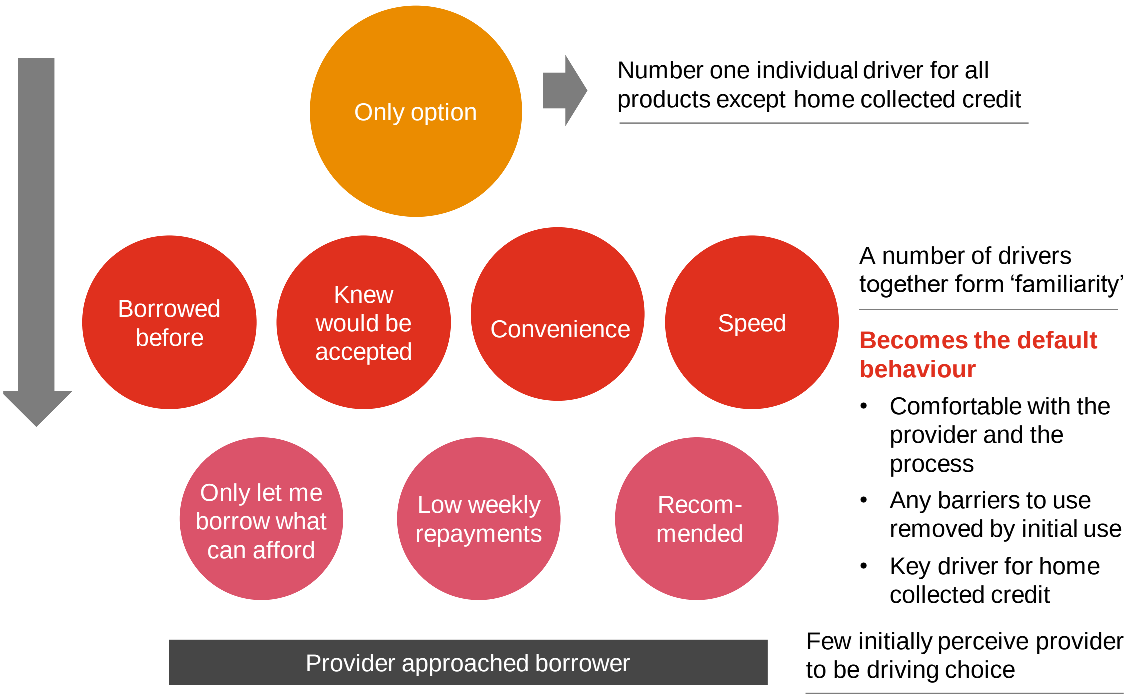
"It was only an extra £2 a week so I thought that's nothing"

– **Male, 27, logbook loan, Leeds**

In the qualitative interviews it became clear that while many of the customers had regrets about their reborrowing, this was often described as regret about their financial situation generally rather than regret about using a particular form of credit. Equally, while many were struggling with their debt and in some cases having to cut back on essentials to keep up with repayments, few aspired to become completely debt free. This appeared to be driven by a sense of resignation. Most were used to living in debt and expected to need to continue to borrow in future. Their aim was to keep on top of their repayments, pay some down and feel less under pressure financially.

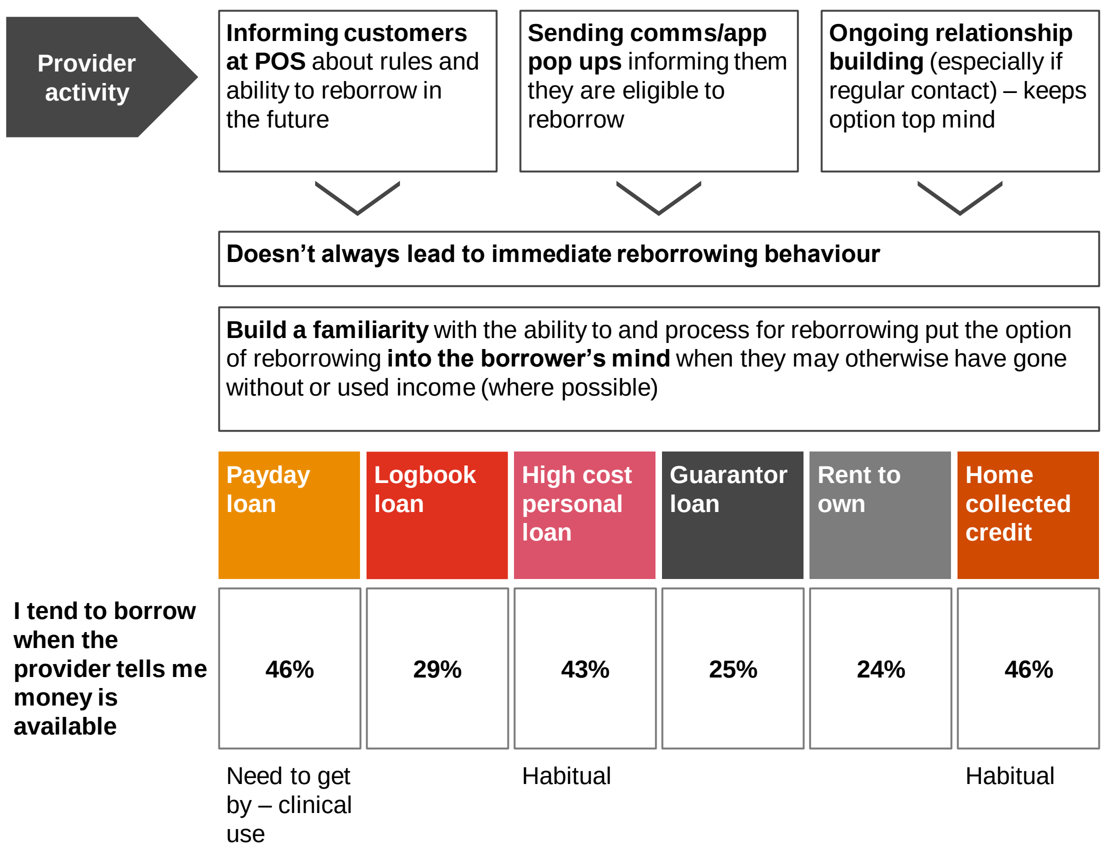
In both the qualitative and the quantitative research there were multiple factors driving customers' reborrowing. Overwhelmingly the number 1 driver for all of the products except home collected credit was that the product being reborrowed was felt to be the customer's only option – they needed the money and didn't feel they could raise it any other way. This is also an important factor for home collected credit customers but for them the biggest influence is familiarity: having done it before, knowing the provider and the process, knowing it will be convenient and quick and that they are very likely to be approved. Other drivers that were present but seemed less influential were around recommendation, low weekly repayments (more important for home collected credit customers than for others) and some reassurance that they would only be allowed to borrow what they could afford. Finally, although there was evidence of providers initiating conversations about further borrowing, most customers felt that this was not a major factor in their decision making.

**Figure 3:** Common drivers for reborrowing




Despite this, provider activity did appear to be having an impact, perhaps at a more subconscious level, and influenced some groups of customers more than others. Figure 4 below illustrates how some provider activity, while not always acted on immediately or recognised as an explicit call to action, had the effect of putting the prospect of reborrowing on the customer's radar and led some customers to agree that they did reborrow when their provider told them further credit was available.

**Figure 4:** Provider impact on the decision to reborrow not always apparent to customers



As well as provider influence on reborrowing behaviour not always being that obvious, the research uncovered very different views on the impact of reborrowing in terms of levels of regret. A common theme to emerge from the qualitative research was that although some customers did regret their reborrowing, many thought they would continue to do so. This was either because they didn't see their financial circumstances ever improving or because they recognised they would find it difficult to break the cycle. Added to this, the qualitative research suggested that when considering what impact reborrowing had had, most customers focussed on the day to day impact, with little consideration given to the longer term.

Taking 7 indicators of customers' perception of the impact of their reborrowing into consideration it was clear that different products had differing levels of impact. Of the 6 products covered in the research, payday loans emerged as having higher levels of negative impact on reborrowers relative to other products, while home collected credit had the lowest levels of impact. In Figure 5 below, the indicators with the highest levels of impact relative to other products are highlighted in red and those with the lowest in green.

**Figure 5:** Perceptions of the impact of reborrowing

**Summary of perceptions**

| % believe… | Payday loan | Logbook loan | High cost personal loan | Guarantor loan | RTO | Home collected credit |
|---|---|---|---|---|---|---|
| **Value of borrowing increased** (since first loan with this provider) | 45% | 39% | 54% | 44% | 30% | 34% |
| **Another decision would have been better** (not to borrow at all, borrow using a different product/provider) | 59% | 59% | 45% | 44% | 26% | 27% |
| **Regret reborrowing** | 62% | 63% | 57% | 40% | 28% | 21% |
| **Have had difficulty repaying** | 40% | 46% | 27% | 28% | 31% | 22% |
| **Had to cut back on spending** (to meet repayments) | 75% | 59% | 55% | 46% | 35% | 21% |
| **Missed a payment (other than on this product) in last six months** (in order to make payments) | 43% | 46% | 34% | 28% | 24% | 21% |
| **Experienced anxiety and stress due to financial difficulties** | 65% | 56% | 48% | 45% | 34% | 22% |

High % compared to other High Cost products

High % compared to other High Cost products but not the highest

Low % compared to other High Cost products

# 3. Payday loans

## Overview of payday loan reborrowing

Of the 6 high cost credit products this research focussed on, payday loans appeared to be having the most impact in terms of everyday stress and worry. Over 60% said they regretted their decision to take on additional borrowing, nearly two thirds (65%) had experienced anxiety and stress and three quarters (75%) had found themselves cutting back elsewhere to keep up with repayments. In the qualitative interviews we also found regret, and examples of people having more than 1 payday running at a time – in one case 5 concurrent payday loans. This was leading to a lot of time and energy being spent keeping on top of payments. Some had taken out additional borrowing to finance other debt, and often prioritised repaying payday loan debts – not to manage the debt per se but to keep the line of credit open. Among the most regular reborrowers we found patterns of 'rotating' providers and knowing who to apply to next to be sure of being accepted.

'I started by using it towards the end of the month but then I ended up using it for a full month. Last month it got bad – I took out multiple loans'

**Male, 32, Sheffield**

'I kind of found myself in a cycle where I was paying it off but then I'd take out another one'

**Female, 40s, Belfast**

Notably, the language some of the qualitative participants used when talking about their payday loans suggested that, despite being keen to keep providers 'on side' in order to secure future borrowing, their loans were not considered as 'serious' as some other forms of borrowing. Examples included referring to payday loans separately from 'proper' or 'big' loans. There was a sense that payday loans could feel like an extension to their current account, for example as a form of overdraft. This perception seemed to be underpinned by the characteristics users of payday loans cite as being key in reborrowing decisions: ease, speed and anonymity. It is possible that the relatively low value of typical pay day loans compared to other forms of credit – especially mainstream credit – also adds to this perception.

Unexpectedly, the qualitative interviews also revealed that for some, the online and app environment, 24/7 access and multitude of providers can have the effect of 'gamifying' the payday loan application and approval process. For some it was clear that they enjoyed the heightening of emotions they experienced while waiting to learn the outcome of their application, alongside the highs – or lows – of being accepted or rejected. This had a particularly marked effect on people with gambling issues or more compulsive personalities.

'My payday loans are kind of my expenses and my emergency overdraft.'

**Male, 42, Belfast**

## Profile of payday loan reborrowers

### Demographic profiling

Payday loan customers were more likely to be male and in the middle age groups (35-54). The majority (91%) were employed and stated earnings from employment as their source of income. Half (50%) of those who stated their household income said that it was over £24,000.

**Figure 6:** Demographic profile of payday loan customers


**Base: Payday loan borrowers (141)**

## Borrowing behaviour

It was clear from the qualitative interviews that customers had moved very quickly from their first payday loan to taking out multiple payday loans, some held concurrently and others with very limited, if any, breaks in between loans. Despite having started using payday loans relatively recently, the money diaries revealed that in most cases they had very quickly become a mainstay of the customer's borrowing portfolio. While most thought that they had imagined their first payday loan would be a 'one-off', no one appeared to have questioned how they had moved from that position to borrowing again and again; perhaps an indication of the habitual nature of some reborrowing. When challenged to explore their behaviour more fully, most talked about the ease, convenience and speed of payday loans; it is these characteristics that seem to have the greatest influence over the reborrowing journey. Interestingly, while there was a lot of evidence of reborrowing from the same providers time and again, some customers described 'rotating' their borrowing, and being keen to make sure they had several options. There were some references to certain providers having tightened up their lending criteria; the most regular reborrowers knew who these were and when to avoid them for a few months so that they wouldn't appear to be borrowing 'too much'. The payday loan customers we surveyed had also started using high cost credit relatively recently. Two thirds (66%) of payday loan customers said they started borrowing money within the last 5 years, and 60% had only taken out their first payday loan within the last 2 years. However, most already had a strong history of reborrowing from the same provider; over half (55%) had had 6 or more payday loans from the same provider in the last 5 years. While half (49%) had borrowed less than £400 the last time they reborrowed, for nearly 1 in 7 the value of their most recent reborrowing was £1000 or more.

**Figure 7:** Number of payday loans held with most recent provider in the last 5 years and value of most recent loan

| Number of loans | | Value of most recent loan | |
|---|---|---|---|
| **2 – 5** | 45% | **Up to £200** | 16% |
| **6 – 10** | 32% | **£200 – £399** | 33% |
| **11 – 15** | 13% | **£400 – £599** | 20% |
| **16 – 20** | 5% | **£600 – £999** | 17% |
| **21+** | 5% | **£1000 – £2000** | 14% |

**Base: Payday loan borrowers (141)**

In the quantitative survey, two thirds (66%) of payday loan customers had taken their next loan once their previous agreement had finished. However, a fifth (20%) had taken out a new payday loan alongside one that was still running, while more than 1 in 10 (11%) had 'topped up' an existing agreement. This mirrors the qualitative stories, where most had only 1 or 2 payday loans running concurrently, although 1 customer had 5 current loans at the time of the interview and had taken out 2 new ones in the short period between being recruited for the research and being interviewed – both on the same day

It was clear from the money diaries that the payday loan customers we spoke to had a much wider portfolio of borrowing than some of the other high cost credit users we interviewed. These were largely made up of more mainstream products such as current account overdrafts, personal loans and credit cards. For the most part these mainstream products were 'maxed' out – and in some cases this had been the catalyst for using payday loans in the first place. As a result, those lines of credit were not currently available for further borrowing, making payday loans even more central to their ongoing borrowing needs.

Despite being relatively new to payday loans (starting on average in the last 5 years), payday loan reborrowers in the survey had also amassed a portfolio of other credit products; nearly half (49%) said they used multiple lenders to get greater access to credit.

**Figure 8:** Other credit products held

| | |
|---|---|
| **Credit card** | 74% |
| **Agreed overdraft** | 56% |
| **Personal loan** | 26% |
| **High cost personal loan** | 23% |
| **Store card** | 16% |
| **Guarantor loan** | 14% |
| **Unauthorised overdraft** | 8% |
| **Home collected credit** | 6% |
| **Home secured loan** | 6% |
| **Savings scheme** | 4% |
| **Rent to own** | 1% |
| **Logbook loan** | 1% |

**Base: Payday loan borrowers (141)**

In the qualitative money diaries, payday loan customers generally had the biggest borrowing portfolios – both mainstream and high cost credit; this explains to some extent the struggles they described juggling payments and keeping providers at bay.

This was borne out in the survey, where payday loan customers were more likely than customers of other high cost credit products to hold mainstream products such as a credit card (74%) or an agreed overdraft (56%). We also saw relatively high levels of usage of other high cost credit products such as high cost personal loans and guarantor loans.

In the qualitative discussions we saw an interesting shift in the reasons for taking out the original and then subsequent payday loans. Most customers recalled having had a specific need to meet – an unexpected bill or an emergency and insufficient funds to cover it – when they first took out a payday loan. Very often they had looked at alternatives such as an overdraft or overdraft extension first and been turned down. We generally think of customers in this situation as being 'reluctant' or 'survival' borrowers; the loan was either a last resort having exhausted other options, or it was necessary to avoid a more negative consequence such as eviction or being unable to buy food. However, as they considered their payday borrowing history, customers found it harder to recall or explain the reason for taking further borrowing. More often than not, the amount borrowed was not specific to a single need or item of expenditure, but a sum designed to cover more than 1 item – usually a mix of general living expenses and repayment of other debts.

When challenged on what could sometimes seem the vague nature of how the need was articulated, people summed it up as ‘in order to make ends meet’. Within this there were customers who admitted borrowing because they felt anxious having no money in their account, and others who borrowed to fund elements of their lifestyle that they couldn’t otherwise have such as going out or taking a holiday.

This was supported by the quantitative research where the highest proportion of payday loan customers (44%) said they needed credit to get by, a third (36%) said they avoid borrowing unless they really had to and a further 13% said they used credit to have the life they want.

In the qualitative research we found examples of consumers juggling high levels of debt. One participant described how he initially used payday loans for specific short term funding needs such as larger items of furniture and holidays. This spiralled into borrowing to keep up debt repayments and at the peak of his payday loan use he took out 10 loans in a 2 week period. In the interview he expressed surprise that none of his providers had ever queried this. He finally plucked up the courage to reveal the extent of his payday loan borrowing to his partner when he was struggling so much that he felt ‘everything was about to come crashing down’. His partner was very supportive and together they agreed she would remortgage their home to get them out of the cycle. He now feels huge relief that everything is out in the open but also a lot of guilt about the longer term implications of remortgaging on their future plans. In particular, he noticed that while his own credit score had improved as a result of paying down his payday loan borrowing, his partner’s score had worsened as she had remortgaged the house to release the funds to make this possible. Not only would they be paying off the mortgage for longer and having to work longer before being able to retire, her personal credit status had dropped. Another, younger payday loan customer got into difficulty as a result of borrowing to support her gambling habit. Having always worked and earned a good income she never struggled to get additional borrowing. At the outset she saw an TV advert, realised she could get extra cash quickly and was surprised at how easy it was. Initially she had no problems repaying but as the payday loans she was taking out got bigger and more frequent she started to struggle, especially once she started borrowing to cover her gambling losses. While the level of her income meant that she never lied to pass any affordability checks, she felt it would be very easy to give an inflated figure with no real barriers to doing so. At one point after taking a second loan with the same provider she received a pop up asking if she had a problem with gambling. While this caused her some embarrassment and anxiety, she lied, said ‘no’ and it wasn’t discussed again.

‘I was borrowing from Peter to pay Paul, and robbing Paul to pay someone else’

**Male, 47, Glasgow**

‘From the first [payday loan] I got into a pattern of borrowing with lots of different providers, taking different amounts where I could to pay off other loans and cover my debts and living expenses. I could have gone to a family member for money, but I didn’t out of pride and ego’

**Male, 40, Birmingham**

Another payday loan customer described how he quickly moved from his first loan to multiple loans with different providers. He described feeling ‘all sixes and sevens’ and ‘like I was suffocating’ at the height of his borrowing. Having paid off his last payday loans and not taking any for a short while, he recently returned to one of his providers and borrowed again. He felt his current borrowing was more controlled and manageable but nevertheless felt ‘stupid and naïve’ for going back.

‘I started missing payments and hit a really bad period when I was struggling to pay back my existing payday loans meant I had to take out new ones to cover the previous ones. I became so depressed I couldn’t leave the house’

**Female, 47, Belfast**

These difficulties paying back payday loan reborrowing were validated in the quantitative research, where 40% of the Payday loan reborrowers surveyed said that at least half their income was committed to repaying borrowing or credit.

## Decision to reborrow

### Purpose of borrowing

As discussed above, the qualitative interviews revealed some key differences between first time payday borrowing and subsequent additional borrowing. While a couple of participants had started borrowing to boost their disposable income and support the lifestyle they wanted, most had initially borrowed for a specific need. As time went on, the reasons all gave for reborrowing became less specific, with the money being borrowed being used for more things – often a combination of meeting living costs, covering bills, and repaying other debt.

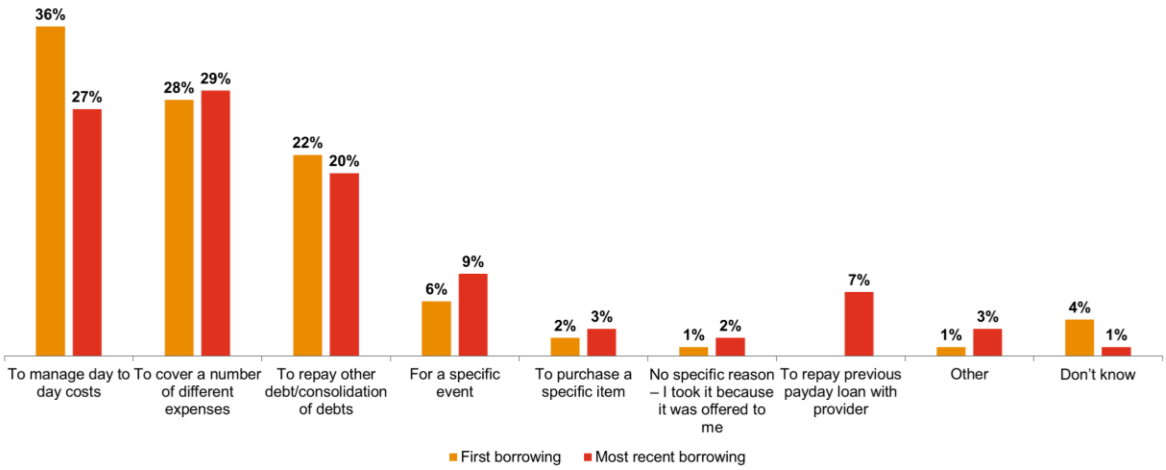
This was echoed in the quantitative research, where payday loan customers cited a range of reasons for first taking out this form of borrowing although managing day to day costs such as utilities, food, transport and housing costs (36%) was the most common. Covering a number of different expenses such as clothes, school expenses and leisure (28%) and repaying other debt or consolidation of debts (22%) were also cited in the top 3.

When specifically asked about their most recent borrowing, 20% said they reborrowed to repay other debt and 7% cited repaying another payday loan. In other words, more than 1 in 4 had reborrowed to cover debt. The qualitative interviews further suggested that 'repaying other debt/repaying other payday loans' rarely meant actually paying off debt – more often than not further borrowing was being taken out to keep up repayments.

'When I started, I would take £100 at the beginning of the month and another £100 later in the month. Then I started taking out £500 at the beginning of the month. Then I began to take out loans to pay my other loans, and just to get by'

**Male, 32, Sheffield**

**Figure 9:** Purpose of first and most recent borrowing




**Base: Payday loan reborrowers (141)**

### Choice of product

In the qualitative discussions there was a strong sense that customers were not being drawn to payday loans as a product as such, but due to a number of other factors around the purchase process: brand, rates and/or terms did not emerge as reasons for choosing a payday loan. The factors customers talked about consistently were ease, speed, convenience, anonymity. When we explored these characteristics in more detail some had more than one variable that customers valued. For example, when talking about ease in the context of payday loans, customers were thinking of the ease of applying, the ease of access whether online or via an app, and the ease with which people felt they were accepted. Similarly, 'speed' referred to the speed of the application process, of the approval decision, and of receiving the funds. Convenience was linked to accessibility, for example the convenience of being able to transact entirely online/via an app and either 24 hours a day or, at a minimum, 7 days a week. Anonymity was also a factor of being a digital channel with extended operating hours and no need to interact in person. Many of the qualitative participants referred to not telling others about their payday loans; the digital nature of the product may be facilitating anonymity in this respect also. While brand was not alluded to as a driver of product choice, the way customers described and appeared to think of their payday loans as an extension of their current account/overdraft suggests that payday loans are possibly being seen as more mainstream than some other high cost credit products. While the above are all 'positive' reasons for choosing to borrow using a payday loan rather than another product, many of the comments made in the qualitative interviews referenced payday loans being 'the only option', or the only lenders who would consider their application. This is discussed more fully below.

'It takes me about 5 minutes to apply, there's no difficult questions and it's a hidden process as well'

**Male, 40, Birmingham**

'You can take out small amounts, so it's quite easy to think that it's all manageable. With the larger loans, you might take more notice of them.'

**Female, 27, Glasgow**

| | |
|---|---|
| ‘When using payday loans, I try to use the best – ones that are considerate, compassionate, understanding – but also ones with an easy to use interface.’<br><br>**Male, 32, Sheffield** | ‘It’s very easy to find a provider and very easy to take one [payday loan] out’<br><br>**Female, 27, Glasgow** |

‘I like the ones where you put in how much, how long and then wait for the underwriters. If they want pay slips, that’s good, because my situation looks good! If they want statements, I don’t look as good.

**Male, 32, Sheffield**

While many customers said they valued the ease, speed and convenience of payday loans, the qualitative interviews suggested that these coupled with the relatively low value of a typical payday loan could for some foster a sense of payday loans not being ‘serious’ borrowing. This sense was exacerbated by the fact that the online/app environment, being accessible at all hours and the abundance of providers can all have a gamifying effect. On top of this, the ‘thrill’ of getting a loan appeared to be especially compelling for customers with gambling issues and/or addictive personalities. Although this latter aspect of payday loan borrowing did not come out explicitly as a driver of choice, some of the qualitative interviews suggested there was some degree of ‘addiction’ or habit driving reborrowing behaviour.

| | |
|---|---|
| ‘Payday loans go so well with gambling. It gives you the same high – you get the money instantly’<br><br>**Female, 27, Glasgow** | ‘Habit might not be the right word, but I am in a bit of a pattern of reborrowing with payday loans, or at least using them as a recurring option’<br><br>**Male, 40, Birmingham** |

‘It feels like an addiction. I always want to buy things. I know that’s not right, but I just want it now, I don’t want to wait. I don’t care about anyone else, I just want it’

**Female, 47, Belfast**

In the quantitative survey we asked payday loan customers what their reasons were for using a payday loan as opposed to any other way of raising the funds they needed. Participants gave a range of different reasons, although nearly half (48%) said that needing the money quickly had influenced their decision and 45% said that convenience and accessibility had been a factor. Additionally, 43% said that it was the only option for them and that they couldn’t have borrowed from elsewhere.

We then asked them to tell us which single reason was the main factor in their decision. Again, the same factors emerged as the most important, with a quarter (26%) saying it was their only option, and nearly 1 in 5 (18%) saying that needing the money quickly was their main reason for using a payday loan and the same number (18%) highlighting convenience and ease as the deciding factor.

### Consideration of alternatives

While two thirds (65%) of payday loan customers surveyed said they had considered other options before taking out the borrowing they did, the qualitative interviews suggested that in practice most alternative options were quickly discounted as too embarrassing, unfeasible, and/or too slow. For example, over half (53%) those in the survey said they considered borrowing from friends and family, while in the qualitative discussions people said they would be too embarrassed to ask for help and that needing funds was ‘their own problem’. Some had already borrowed from family or friends before and didn’t feel able to ask again, while yet others said their family and friends didn’t have money to lend them.

| | |
|---|---|
| ‘I could ask my mum, but I wouldn’t want to, partly out of pride and partly because she’s on her own and I wouldn’t want to put her in a bad position. I could ask my sister, but she’d hound me for the money back.’<br><br>**Female, 47, Belfast** | ‘I could have gone to family members for money, but I didn’t out of pride and my ego.’<br><br>**Male, 40, Birmingham** |

While in the quantitative survey 43% said they’d considered a bank loan, in the qualitative interviews this was never felt to be an option. Most either had a bank loan already that was still being paid back, or had applied for a bank loan (or overdraft/overdraft extension) and been turned down. For this latter group, the experience of being turned down had usually happened in the past – and in some cases had been the trigger for taking out their first payday loan – not something that had led to their latest borrowing. People were generally assuming that they would be turned down for a bank loan and given that overall their financial situation had worsened since the first time they'd been turned down, they were confident their assumption was right.

> 'I started using payday loans after maxing out my other credit options. By using them, you cut off your avenues to use other kinds of finance, like banks – it's a vicious cycle.'
>
> **Male, 47, Glasgow**

In the survey, just over a third (36%) said they had considered selling something to raise the money they needed rather than borrowing. This wasn't an option that was raised in the qualitative discussions, but this may be because the people we spoke to all said they had been looking to borrow very quickly. They highly valued the speed with which they could arrange a payday loan and receive the funds. It was clear from the way they described their actions that any alternatives they might have thought would by their nature entail a longer process.

> 'I went online, did the affordability check and got approved straight away; this has always been my experience.'
>
> **Male, 40, Birmingham**

Finally, while nearly 1 in 10 (9%) said they considered saving up and 4% said they had considered using existing savings, the participants in the qualitative discussions did not have any savings. The need to borrow quickly would have precluded them from saving up – had they believed they could manage to save.

The overriding sense in the qualitative interviews was that no one felt they had any workable options at the time of their most recent reborrowing. This appeared to be largely driven by a belief that payday loan providers were the only type of lenders that would consider giving them credit. Allied to this, their reluctance to ask friends or family for help was mirrored in the quantitative results. Of those that said they didn't consider other options, when we asked what the key barriers to this were, well over a quarter (28%) of respondents said they were not able to ask anyone to lend them money and/or thought they would not be accepted for other products (26%).

## Applying for reborrowing

### Contact with provider

In the qualitative interviews, customers felt overall that they had initiated their reborrowing, but that at the same time they generally 'knew' more borrowing would be possible. This 'certainty' seemed to play an important role in provider choice. At the same time the perception of more money being available seemed to be fairly nuanced. Those who had been borrowing the longest felt their payday loan providers were not actively pushing additional borrowing onto them, but there were nevertheless indications that money would be available if required. Some said that while they didn't usually receive communications about additional borrowing while they were actively paying off a loan, they had received communications once paid off.

> 'I always hear from companies I'm not borrowing from, but don't usually hear from the ones I am using while I'm using them. In the past I used to get texts about renewing or topping up, which I hated. It would say things like 'take a holiday' which I found tempting – I would think – why not?'
>
> **Female, 47, Belfast**

> 'I don't hear much from my [payday loan] providers now. I got a lot more emails when I first used payday loans but far fewer now. They [companies he uses] don't approach me but they're often on daytime TV and they come up when I search 'bad credit loans. They don't target me. I don't feel bombarded, targeted or tempted.'
>
> **Male, 40, Birmingham**

In the quantitative survey, over a quarter (28%) recalled their payday loan provider initiating contact with them about getting additional credit, rather than them approaching the provider first. These communications were mainly email (75%), text message (43%) or via a pop up on their website or app (30%).

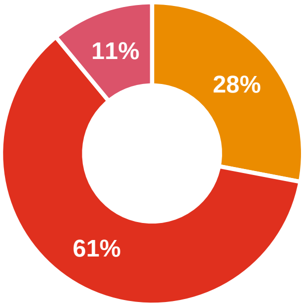
In the main, the communications were perceived to be specific to the customer, rather than more general in nature – for example 73% of emails were considered specific to the customer versus 17% recalling the communication as generic while 10% said they didn't know. In the qualitative interviews 'specific' meant addressed to the individual or referring specifically to their last loan, as opposed to generic messages aimed at everyone.

| Specific/Targeted message | Generic messaging |
|---|---|
| 'When I logged onto the [provider] website there was a section that said we can't give you another loan until the 6th of August – so I know I can get £1,500 relief in a week's time.' | 'I get texts from a firm I've never used. I think companies must sell customers' details. It makes me very anxious. Sometimes I get my fiancé to call and ask them to stop.' |
| **Male, 42, London** | **Female, 27, Glasgow** |

Only 13% of payday loan customers said they did not receive any communications from their Payday loan provider before taking out their recent reborrowing.

**Figure 10:** Communications

**Who made first contact to talk about getting additional credit?**




- My provider asked me about getting additional credit
- I asked my provider about getting additional credit
- Don't know

**Base: Payday loan reborrowers (141)**

**Communication received before most recent borrowing experience**

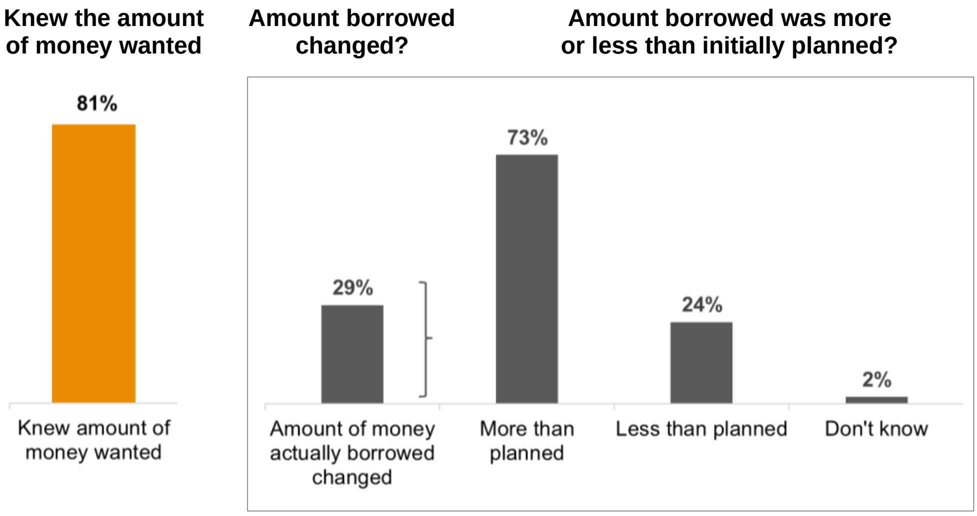
| | |
|---|---|
| **Emails** | **75%** |
| **Text messages** | **43%** |
| **Pop up in website or app** | **30%** |
| Correspondence/letters | 13% |
| Phone calls | 13% |
| Advertisements/offers on or through social media | 5% |

**Base: Payday loan reborrowers where the provider initiated contact (40)**

## Reborrowing amounts

In the qualitative interviews people generally knew how much additional reborrowing they wanted, but compared to their first payday loan the amount borrowed sometimes differed between thinking about reborrowing and taking out their new loan. As discussed earlier, subsequent loans were often not for a single specific need but to access funds the customers would then use to meet a few different expenses such as an unexpected or higher than expected bill, day to day living costs, and other debt repayments. As a result, the amount applied for was sometimes quite flexible – usually rounded up or (very) occasionally down. Other than the actual amount, most considered affordability. If they were comfortable they could meet the repayments from borrowing a bit more, they would do so; most felt they could always do with a bit more money. In the quantitative survey the majority (81%) also said they knew the amount of money they wanted to borrow before discussing it with their provider. However, similar to the stories heard in the qualitative interviews, well over a quarter (29%) borrowed a different amount than they had first thought of after being in touch with their provider, and most of these went on to borrow more than they had initially planned.

**Figure 11:** Amount borrowed (% Agree)




**Base: Payday loan reborrowers (141)**

**Small base size:** Payday loan reborrowers who said the amount of money actually borrowed changed (41)

## Feelings about the decision to reborrow

In the qualitative interviews payday loan customers generally regretted their reborrowing but were not sure what would have persuaded them to do anything differently at the time; the regret they expressed was more about the position they subsequently found themselves rather than the decisions they had made. The money diaries had the impact of making people more conscious of how much their borrowing behaviour must have cost them and would continue to cost them over time. However, as discussed above, most felt that they didn't really have any other options at the time of taking the additional borrowing while all believed that more affordable, mainstream borrowing was closed to them. Some felt that while they knew payday loans were expensive and in some respects 'addictive', for them, payday loans felt like a better option than some other high cost credit products such as home collected credit, high cost personal loans or logbook loans. When talking about the cost, customers used words such as 'expensive' 'excessive' and 'over the top'.

Others felt that while they knew they shouldn't have reborrowed to the extent it became unmanageable, they had to take responsibility for their own actions.

In the quantitative survey over a third (38%) of payday loan customers believed that their payday loan reborrowing was the best option available to them at the time. While 2 in 5 (40%) felt that it would have been better not to borrow at all, 11% believed it would have been better to borrow in a different way and 9% thought it would have better to borrow from a different provider.

Levels of regret were high with nearly two thirds (62%) saying they regretted taking out this additional borrowing. Of this 62%, four fifths (80%) said they regretted their decision to reborrow 'a lot' and 19% said 'a little'. The main reasons for regret were that the interest rate was high (63%) and that the total amount to be repaid was expensive (61%). In addition, 59% of payday loan customers felt there had been an overall negative impact on their financial situation while over half (55%) thought their wellbeing had been affected.

'I thought about getting a [home collected credit provider] loan but then I thought no, I don't want them coming to my home.'

**Female, 47, Belfast**

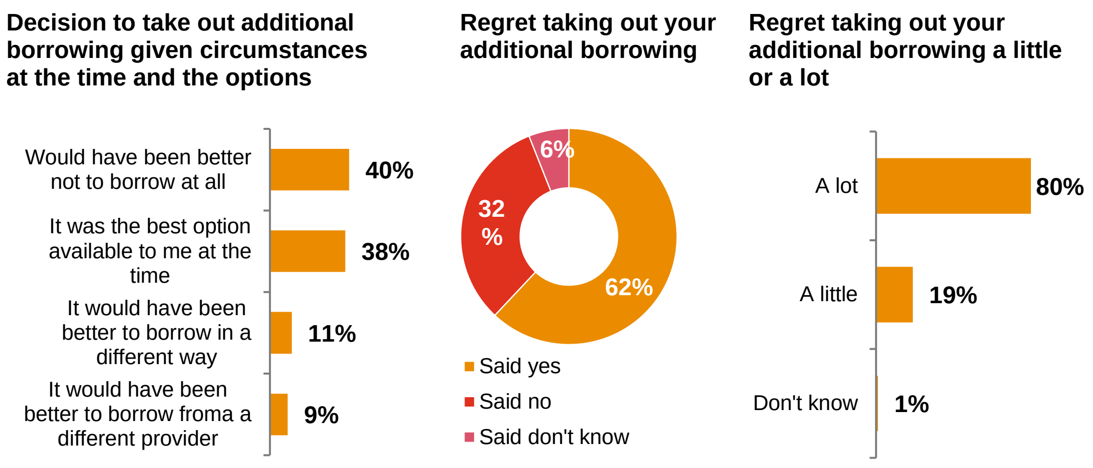
'I'd never have a logbook loan; I'd be scared of losing my car.'

**Female, 27, Glasgow**

'They just provide a particular service, money at a higher cost. It just depends on how you use it, and I used it poorly. No one was forcing me to use it.'

**Male, 47, Glasgow**

**Figure 12:** Was reborrowing in this way the best option?




**Base: Payday loan reborrowers (141)**

## Impact of reborrowing

Most of the payday loan customers were aware that over time their borrowing had increased considerably; both in terms of the overall debt and the amounts borrowed each time. While the financial impact was great, there were equally examples of the stress and anxiety caused by their struggles to keep up with repayments as their debt grew. Several customers referenced the impact on their mental health, and on their relationships, as most had kept the extent of their reborrowing to themselves and found it difficult to talk to family and partners about it. In several of the interviews customers seemed conflicted about their use of payday loans. One customer described the loans he had taken as a ‘lifeline’, and although he knew they were damaging financially, without them he would have ‘gone under’. However, he then went on to say that had he exhausted all of his credit options earlier, he would have ‘hit the wall’ earlier and as a result limited the amount of debt he was building up. This feeling was echoed by another customer, who felt that had she run out of reborrowing options it would have been awful, but her overall debt would have been lower and the long term consequences less painful. This sense of conflict: short term relief vs. long term consequences – although less clearly articulated – was observed in other interviews. People recognised that their borrowing must have cost them thousands of pounds over the years and had undoubtedly increased their indebtedness, but at the same time they couldn’t imagine how they would have managed without it.

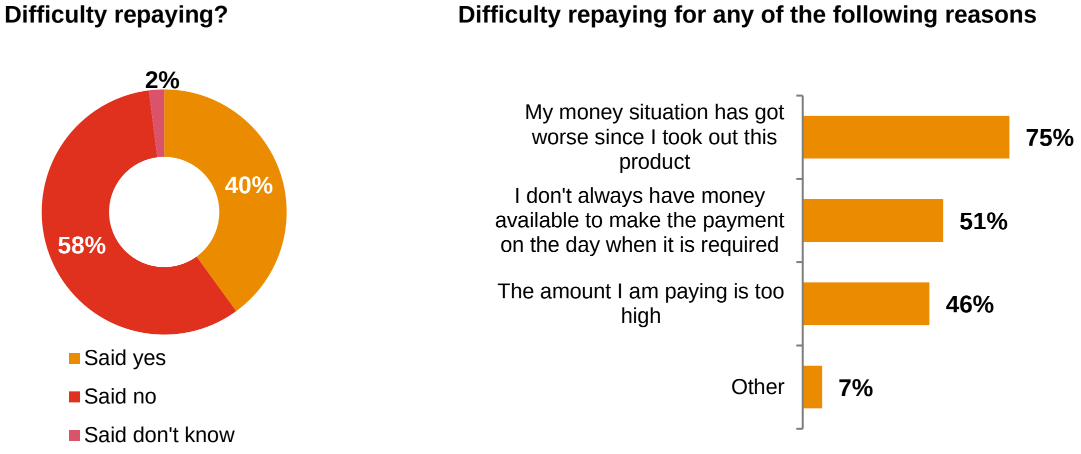
These sentiments were mirrored in the survey, where nearly half (45%) of payday loan customers said that the amount they had borrowed had increased over time from when they first started using payday loans with this provider. Less than 1 in 10 (7%) said that the amount they had borrowed had decreased.

Three quarters (75%) said they had had to cut back on spending to meet their payday loan repayments and two fifths (40%) had had difficulty repaying. The most common reason given for this was that their financial situation had worsened since they had been using payday loans.

‘[if I’d run out of options sooner] I would have gone to the wall earlier, but maybe that would have been a good thing.’

**Male, 47, Glasgow**

**Figure 13:** Whether had difficulty repaying payday loan reborrowing




**Base: Payday loan reborrowers (141)**

**Base: Payday loan reborrowers who had difficulty repaying (57)**

Over a quarter (29%) placed payday loan repayments in their top 3 priorities for outgoings each week or month. In fact, 43% had missed a payment on other commitments (utility bills, rent/mortgage, council tax, other borrowing) to make sure they could meet their payday loan repayments. This echoed some of the qualitative interviews where customers talked about juggling their finances to make sure they could make their repayments; very few had ever missed a repayment, although some had avoided this by taking out additional loans to do so. The strong sense in the qualitative interviews of payday loans being the only borrowing available suggests that one reason for prioritising payday loan repayments could be the strong desire to keep this (perceived) last line of credit open.

All of the qualitative participants acknowledged the impact their payday loan reborrowing had had on their financial situation generally and their money management more specifically. In the quantitative survey two fifths (40%) said that at least half their income was committed to repaying borrowing or credit and two thirds (65%) had experienced anxiety and stress as a result of their financial Difficulties summing up the impact of payday loan reborrowing.

Payday loan customers had the highest indicators of harm of the 6 high cost credit products included in the study. In the qualitative interviews, customers described feelings of guilt, shame, anxiety and depression, and several described the ease, speed and anonymity as almost addictive. All were aware that their borrowing had increased considerably over time, and the reasons for borrowing became less specific and more about keeping up repayments and meeting living costs as their debts gradually took a higher proportion of their income. The chart below from the quantitative survey shows the summary of customers' perceptions of the impact of their reborrowing. It relates specifically to their payday loan reborrowing but is also associated with the high levels of other credit products held, both mainstream and high cost borrowing.

**Fig 14:** Summary of impact of Payday loan reborrowing

**Summary of perceptions**

| % believe | Payday loan |
|---|---|
| **Value of payday loan borrowing increased** (since first loan with this provider) | 45% |
| **Another decision would have been better** (not to borrow at all, borrow using a different product/provider) | 59% |
| **Regret reborrowing** | 62% |
| **Have had difficulty repaying payday loan** | 40% |
| **Had to cut back on spending** (to meet Payday loan repayments) | 75% |
| **Missed a non-PDL payment in last six months** (in order to make Payday loan payments) | 43% |
| **Experienced anxiety and stress due to financial difficulties** | 65% |

**Three quarters have had to cut back on spending to keep up their payday loan repayments, and two fifths had missed paying other commitments to do so**

- High % compared to other High Cost products
- High % compared to other High Cost products but not the highest
- Low % compared to other High Cost products

**Base: Payday loan reborrowers (141)**

'It's a vicious cycle and you end up chasing your tail'

**Female, 47, Belfast**

## Payday loan stories

### ‘Michael’, 32, 4 current payday loans

**Circumstances**

- Michael joined the army when he left school – and this is where his journey with credit began.
- He now works as a supervisor and has the opportunity to do overtime when it’s available and considers this to be a part of his income when calculating what he can afford, even though some months there are limited overtime opportunities available.
- He lives on his own having recently split from his girlfriend and believes one of the reasons the relationship broke down was his ‘repetitive debt.’

**Payday loan journey**

- He started using payday loans when he left the army – originally it had been to plug the gaps towards the end of the month as he was finding himself short due to general living expenses but also repayments on his high cost personal loan, credit and store cards, home-collected credit loans and hire purchase agreement.
- As time went on, he had to borrow more and more after he became redundant and took on a lower paid job. He developed a strategy for using payday loan providers – paying off the ones where he knew he would be able to borrow again soon, not paying off the ones who say they won’t lend to him, only using providers who ask for wage slips not bank statements.
- He complains about being harassed by texts and emails (from other companies) whenever he uses a new payday loan company although he claims not to trust these and has never contacted them.
- Due to job changes and poor financial management, at one point he was paying £800 a month towards repayments but his ‘take home’ pay was only £850.

**Impact of repeat Payday loan borrowing**

- At the point when he didn’t have enough to live on, he experienced high levels of stress and anxiety, admitting to feeling very scared and worried.
- After contacting a debt management company, he felt much better until he realised how much he was paying them.
- He has learnt from this experience and now, whenever he gets into difficulty, he agrees a plan with each of his creditors directly. Because of this, he does not feel as anxious.
- Despite getting into difficulties, he still advocates the use of payday loans as he sees them as being a life line when he’s really struggled and often relies on them for lines of credit.
- His goal is to be in control of his borrowing – to be up to date with all his repayments – not to be debt free.

### ‘Dave’, 42, 7 current payday loans

**Circumstances**

- Dave is a freelance business consultant.
- He lives in rented accommodation and sometimes sub-lets one of the rooms to support his fluctuating income. His salary fluctuates hugely – he can earn £6,000 one month and £2,000 the next.
- He loves to party and admits to being bad with money – he is currently juggling debts of £55k-£60k. He feels once he's ready he will get a well-paid job and clear his debts within 12-18 months.

**Payday loan journey**

- Dave started using payday loans in the early days of Wonga. Initially a stopgap, with only one payday loan at a time and gaps in between paying it off and getting a new one. This has built over the past 5 years and he now has multiple payday loans as well as a current account overdraft and credit cards which are maxed out, plus 2 bank personal loans and a third loan from a family member.

**Impact of repeat Payday loan borrowing**

- Dave does not see payday loans as 'proper' borrowing – he refers to his bank loans as 'proper' and sees his payday loans as a type of overdraft.
- He has learnt to avoid the providers who have more stringent affordability checks and will not apply to any that want to see his bank account.
- Rotating around his payday loan providers, interacting solely online mainly at night, some of the branding/messages and getting a thrill from being accepted have all contributed to the sense of it being a game/not serious.
- Repeat borrowing means his payday loan debt has increased tenfold and he often now borrows to pay off other debt.

# 4. Logbook loans

## Overview of logbook loan reborrowing

This research uncovered a similar story to payday loan reborrowing in terms of the impact logbook loan reborrowing was having on the customers we spoke to. Nearly two thirds (63%) said they regretted taking out additional borrowing, while over half (56%) had experienced anxiety and stress as a result. Just under half (46%) had had difficulty making repayments. While regret was high, the qualitative discussions suggested that this was sometimes less to do with the product and more to do with the circumstances people found themselves in. In the qualitative interviews it was also clear that all the customers we spoke to understood they were using their car as collateral for the loan and that they could lose it if they were unable to keep up repayments. This 'risk' is seen as both a good and a bad thing: it provides a strong incentive for keeping up repayments but can also lead to the logbook loan repayments being prioritised over other commitments and outgoings. This 'juggling' of finances can then cause stress and/or anxiety.

'I saw it as kind of risk free as well. I know I have a car that has some value. I know that if I get a loan out of the car, I'm going to repay it, rather than taking out some unsecured loan'

**Male, 35, Surrey**

'It's gone from bad to worse, when you are borrowing each month to pay bills and borrowing again, it becomes a vicious circle. You just sink your head lower and lower and, in the end, stick your head in the sand.'

**Female, 54, Peterborough**

When it comes to the initial use of logbook loans, 2 common themes emerged in both the qualitative and quantitative research: a perception of having no other borrowing options and of having a tangible asset to use as collateral.

The qualitative interviews also revealed the importance of the 'contained' risk alongside the access to larger sums when using logbook loans.

'I didn't have anything that was worth selling and I didn't know how I was going to fund [daughter's] college. It [the car] was the only thing I could come up with that I knew had some equity in'

**Female, 48, Wakefield**

'Even if what you owe is more than the car's value it's cut off once they've taken the car'

**Male, 22, Stockport**

**Losing car is the worst case scenario**

- But the risk is known and perceived to be finite/contained
- Importance of car to daily routine provides the motivation to keep up repayments
- Despite the risk being high, previous experience provides reassurance

Acceptability of risk

Access to larger sums

**The value of the car means more money is available**

- In contrast to Home collected credit or PDLs

In the qualitative research, customers' attitudes towards their logbook loans as a credit product varied. Few talked about their use of logbooks loans to others. Some felt there was some level of stigma attached while others felt more comfortable with their logbook loan than with other forms of high cost credit, particularly products requiring more customer/provider interaction such as rent to own, or home collected credit.

Compared to some other high cost credit products, logbook loan advertising and marketing messages seemed to have more influence. In the qualitative interviews customers recalled having seen TV advertising for logbook loans; they had also picked up messages both pre and post sales about additional borrowing.

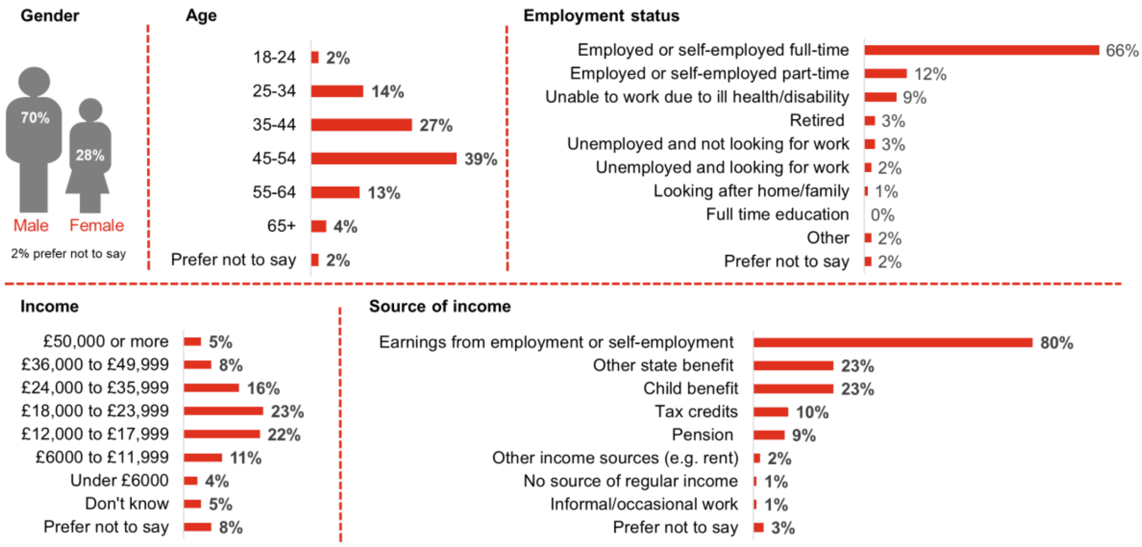
## Profile of logbook loan reborrowers

### Demographic profiling

The logbook loan customers in this research had a similar profile to payday loan customers; more likely to be male (70% vs. 28% female) and in the middle age bands (35-54). Levels of employment were high at 78% but lower than payday loan customers at 91%. Income however was generally lower, with just 29% who gave their household income saying it was £24,000 or above, as opposed to 40% among payday loan customers.

Over two thirds (69%) described themselves as reluctant logbook loan users – avoiding borrowing unless they had to – while 1 in 5 said they needed the borrowing to get by and 1 in 10 saying they borrowed to have the lifestyle they wanted.

**Figure 15:** Demographic profile of logbook loan customers




**Base: Logbook loan reborrowers (128)**

Logbook loan customers were using a wide variety of other credit products, both high cost and more mainstream. Two fifths (40%) had a credit card or cards and over a quarter (27%) an agreed overdraft. In the qualitative research, several of the customers had previously held mortgages, bank loans, store cards and multiple credit cards and had got into financial difficulty as a result of a negative life event such as a relationship breakdown, job loss or other sudden drop in income. As finances became more squeezed, their reliance on credit increased. The money diaries showed that people had had – and in most cases were still paying back – bank loans, credit cards and retail credit accounts and had moved progressively onto higher cost credit products.

| | |
|---|---|
| 'I separated from my husband 10 years ago and he hasn't paid any child support since then'<br>**Female, 49, Wakefield** | 'You get tired of saying no to the kids all the time; it's nice to say – yes, you can have those trainers'<br>**Male, 37, Leeds** |

**Figure 16**: Other credit products held

| | |
|---|---|
| **Credit card** | 40% |
| **Agreed overdraft** | 27% |
| **Payday loan** | 13% |
| **Home collected credit** | 12% |
| **Guarantor loan** | 9% |
| **Personal loan** | 9% |
| **Unauthorised overdraft** | 8% |
| **Store card** | 5% |
| **High cost personal loan** | 5% |
| **Rent to own** | 5% |
| **Savings scheme** | 4% |
| **Home secured loan** | 3% |

**Base: Logbook loan reborrowers (128)**

### Borrowing behaviour

A common theme in the qualitative interviews was the struggle people were having meeting day to day living costs, covering regular outgoings and repaying debt. For some this was a daily or weekly struggle, for others monthly. While some were just about keeping their heads above water, all had little or no provision for dealing with unexpected bills and expenses, making additional credit the only option they could see. Most had had mainstream credit products that were either maxed out and still being paid off, or that had been paid off at some point and were no longer available to them. Several described having been turned down for a bank loan, or an increased credit limit before turning to higher cost borrowing. Many had subsequently used high cost personal loans, payday loans, home collected credit and rent to own and were either still actively using these or were trying to move away from them.

One logbook loan customer had had 18 payday loans at one stage; his take home pay was £1,300 a month and his repayments just on payday loans, not taking into account other bills/costs was £2,900. He recognised he was stuck but was 'too proud to ask for help'. At the time of the interview he had paid a good proportion of these off and was working hard to rebuild his credit score, but for the moment he was prioritising his payday loan repayments, then the logbook loan repayment, then his credit cards. As a consequence, he often made the minimum payment on his 2 credit cards, only paying more when he had a bit more disposable income that month.

> 'The tipping point was when I couldn't get balance transfers big enough to move all of my credit card debt and I had to borrow some money from my brother'
>
> **Male, 22, Manchester**

Some of the difficulties people found themselves in were evidenced in the money diaries. The first extract illustrates how quickly after being paid people can start to struggle when carrying high levels of debt.

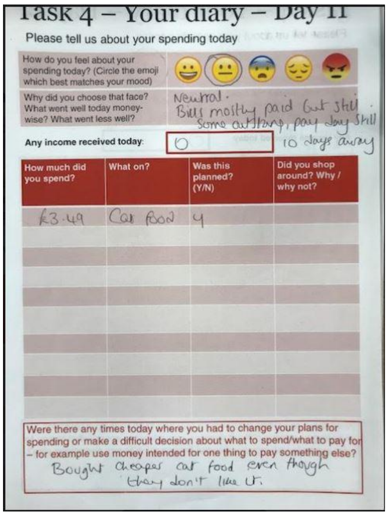
> 'I live on the edge. I'm always paying things a couple of days late here and there and waiting for money to come in. If you shout louder then I'll pay you'
>
> **Female, 48, Wakefield**

In this extract from a money diary we can see the customer had spent all of their income 3 weeks before their next pay day


The second extract is a good example of both the level of adjustment people have to make when money is so tight, and the emotional distress this can cause.

> 'Over the years it's [the gap between income and outgoings] just split further and further until I became more and more poor credit. I'm trying to rebuild it now but because I needed money last year, I had to go for the logbook loan.'
>
> **Female, 54, Peterborough**

In this extract from a money diary we can see the customer bought cat food they knew their cats didn't like in order to save money



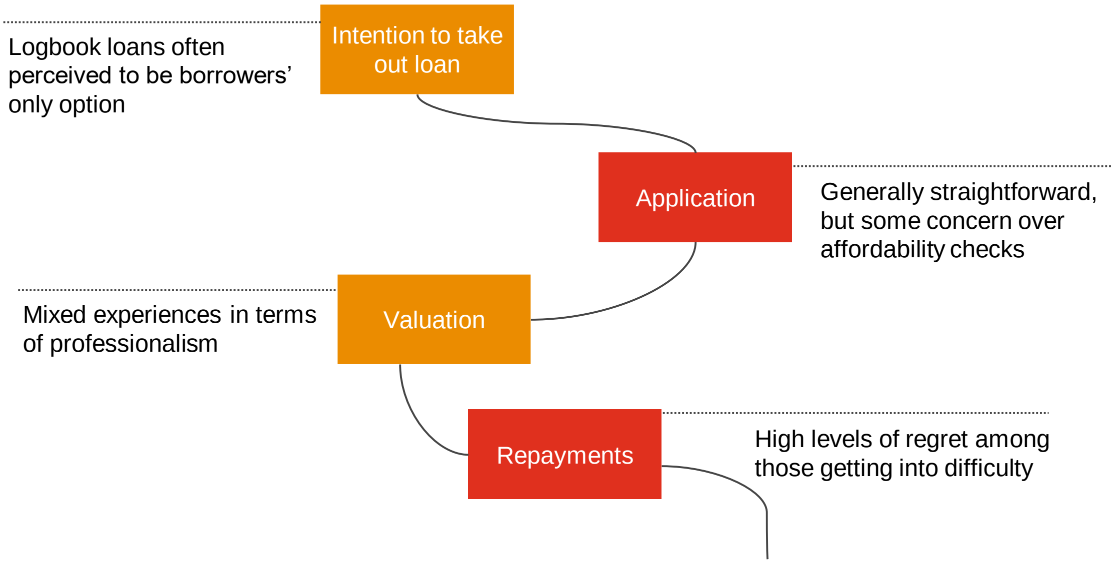

This level of struggle affects people differently. While many seem to have become fairly resilient as a result of years spent living in financial difficulty, the continuous battle can make some susceptible to taking on additional borrowing when the opportunity presents itself. As we will see later in this chapter, nearly all of the logbook loan customers we spoke to said they had become aware of logbook loans through advertising they'd seen on TV and social media; none had heard about it from anyone they knew and they themselves hadn't really talked about it once they themselves had started using this form of borrowing.

> 'Being skint is like Groundhog Day. You just want to go out for a meal'
>
> **Male, 37, Leeds**

## The purchase process

All of the logbook loan customers in the qualitative research described the purchase process in the same way, although some of their experiences on the purchase journey varied. All had started with the need to borrow and having decided to do so, felt that at that point a logbook loan was their only option. This perception was generally based on having 'maxed out' other credit products and/or having been turned down for another form of borrowing. There was generally not a deliberate act of looking at options and choosing one. All reported the application process as straightforward, with a mix of applying online or over the phone.

Once the application had been submitted, affordability checks were completed quickly. For some of the customers this stage felt too quick. There were references to approvals being received almost instantly. This didn't appear to impact on how they felt about the loan but it did seem to raise questions as to whether or not the affordability checks had been thorough. One customer described how her agent had asked for 6 months' worth of bank statements which she provided. The agent submitted them and the approval came back 5 minutes later. In her view it wouldn't have been possible for all of the statements to have been reviewed in this time and this left her feeling that the company was 'paying lip service to doing the checks'. Another customer described that, although he had originally been taken through an income and expenditure form for the first loan, when it came to reborrowing he was simply asked 'has anything changed?'




On the whole, the valuation process had gone smoothly for the logbook loan customers, but while some found the field agents who came out to be professional, others found the experience less reassuring. When asked what 'professional' meant, customers described their agents as smartly dressed, well prepared, knowledgeable, taking the time to answer questions and happy to meet the customer either at home or at a pre agreed location. Others had had less positive experiences, with one customer describing how he felt the agent 'fudged' the valuation to match the amount he wanted to borrow. He felt that this could have been the action of his particular agent, although he didn't perceive it as something that could have been encouraged or influenced by the provider. Other touchpoints such as online and over the phone were described as clear and straightforward.

The perception of the logbook loan being the only option was also evident in the quantitative research, where well over half (59%) gave 'the only option for me' as a reason for taking out their most recent logbook loan, with speed and convenience the second and third most mentioned reasons.

> 'I used to be allowed overdrafts and get personal loans, but I kept defaulting because my outgoings were higher than my income. I had to go for the logbook loan because that was the only thing I could go for'
>
> **Female, 54, Peterborough**

One notable difference between logbook loans and some high cost credit was that the value of the loans taken out tended to be larger; 80% of customers had borrowed £600 or more on their most recent logbook loan, with 59% of them having borrowed over £1,000. Borrowing more did not necessarily mean borrowing less often, as 38% of the customers had had 4 or more logbook loans with the same provider in the last 5 years.

**Figure 17:** Number of logbook loans held with most recent provider in the last 5 years and value of most recent loan

| Number of loans | | Value of most recent loan | |
|---|---|---|---|
| **2 – 3** | 62% | **Up to £600** | 20% |
| **4 – 5** | 21% | **£600 – £999** | 21% |
| **6 – 10** | 13% | **£1000 – £1999** | 42% |
| **11 – 14** | 3% | **£2000 – £4999** | 13% |
| **15+** | 1% | **£5000+** | 4% |

**Base: Logbook loan reborrowers (128)**

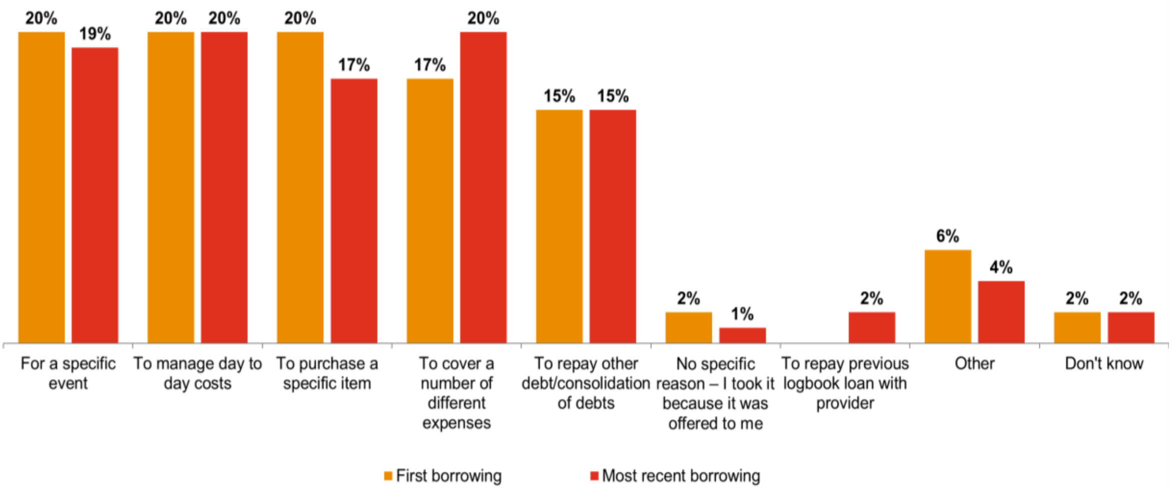
## Decision to reborrow

### Purpose of borrowing

As discussed earlier, the logbook loan customers in this research had been using other credit products before taking out their first logbook loan. In this time, many had built up a large portfolio of borrowing products and relationships, some of which were still current, some had been paid off and others – predominantly mainstream products like overdrafts and bank loans – were no longer available to them.

In the qualitative research, all were struggling with debt when they took out their first logbook loan. While for some this form of borrowing felt like a last resort, for others using a tangible asset as collateral for borrowing made sense. Many said that taking out their first logbook loan was to help them manage day to day costs (20%), to cover a number of different expenses (17%) or to repay other debt (15%); this echoes the qualitative stories that suggested many were already in financial difficulty when they started using logbook loans. When we asked people about subsequent logbook loan reborrowing there was little difference between the first time and subsequent loans, with only a slight shift from more specific to more general needs.

**Figure 18**: Purpose of first and most recent borrowing




**Base: Logbook loan reborrowers (128)**

### Choice of product

As seen in figure 17 above, many logbook loan customers surveyed had had multiple loans with the same provider in the past 5 years. This was echoed in the qualitative research, where 5 of the 6 customers interviewed had stayed with the same provider and borrowed multiple times. Just one had changed provider, and that was after her request for a top up on her second logbook loan was turned down. In this last case, the customer described how when first applying for a logbook loan she had been told that she would be eligible for a top up after 3 months if she kept up with her payments. As a result, she had planned to top up from the outset. She didn't top up the first loan a second time but felt that this was because no one suggested it to her. When she subsequently took out her second logbook loan with the same provider – once the first had been paid off – she was again told she could top up after a few weeks. She immediately ‘earmarked’ the top up for funds to take her child on holiday, so when she was turned down for the top up, she became very upset as she felt it had been promised. The outcome of this incident was that the customer took out a logbook loan with a new provider that allowed her to pay off the first provider and release the extra borrowing she was looking for. All of the customers in the qualitative research knew that their provider offered top ups; some had been told at the outset, others recalled seeing it in their provider’s marketing communications, and one recalled being told that she would be eligible once she’d demonstrated a good track record with her repayments. Although a couple felt there was some stigma around logbook loans, for all 6 it had become the product of choice for reborrowing. Certainty of being accepted for a top up or subsequent loan and using a provider they had used before were consistently mentioned as factors in the decision. For one customer, using her car as collateral for borrowing was worrying and reassuring at the same time; giving someone else control over a valuable asset made her feel vulnerable but also motivated her to manage the repayments.

> ‘Not having control over my possessions makes me a bit anxious but it’s also good because I need my car so I prioritise keeping up the repayments’
>
> **Female, 54, Peterborough**

### Consideration of alternatives

In the quantitative survey, half of those reborrowing (52%) said they had considered other options. Options they said they had considered included a bank loan, borrowing from friends and family and using a credit card.

In the qualitative interviews it was apparent that customers felt they had had few realistic options they could consider before reborrowing, or that any options they had considered had been quickly discounted. The number and frequency of topping up and taking further loans with the same provider, the comfort of using a known provider and the confidence knowing further borrowing would be available all suggest that customers had fallen into a pattern of reborrowing in the same way each time rather than taking a deliberate step back to consider whether other options might be available or more suitable. In the quantitative survey, among the 61 customers who said they didn’t consider other options, the main reasons for this were not feeling able to ask anyone to lend them the money (25%), thinking they wouldn’t be accepted elsewhere (23%) and not being able to think of an alternative (18%).

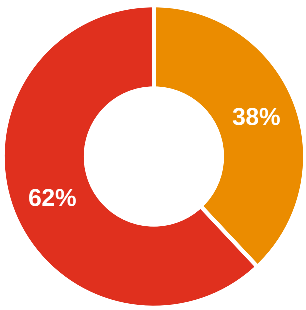
## Applying for reborrowing

### Contact with provider

In the quantitative survey nearly two thirds (62%) of logbook loan customers said they had initiated contact about additional borrowing; 38% said their provider had talked to them about it. Of the communications received from providers phone calls, text messages and emails were the most common channels followed by a face to face conversation inside or outside the home. As already discussed, all of the customers in the qualitative interviews said they knew further borrowing was available before they asked for it; again, this was from provider communications before and after taking out the initial loan, from conversations had either over the phone or in person, from advertisements on TV and in social media, and from messages/pop ups on the provider’s website or app. One customer commented that she found some of the TV adverts for logbook loans inappropriate; she felt they were trying to make it sound ‘fun’. As with the first logbook loan, the qualitative interviews indicated that affordability checks continued to be made for top ups and additional loans, but there was some uncertainty as to how stringent these were. Some customers felt the time taken to approve the loan suggested that there couldn’t have been sufficient time for thorough checks to be made, while there were also examples of customers being asked to confirm nothing had changed since their previous loan and then not being taken through the full series of questions about their income and outgoings.

**Figure 19:** Communications

**Who made first contact to talk about getting additional credit?**




- My provider asked me about getting additional credit
- I asked my provider about getting additional credit

**Base: Logbook loan reborrowers (128)**

**Communication received before most recent borrowing experience**

| | |
|---|---|
| **Text messages** | **88%** |
| **Emails** | **40%** |
| **Phone calls** | **27%** |
| Face to face discussions – Outside your home | 15% |
| Face to face discussions – Inside your home | 8% |
| Correspondence/letters | 8% |
| Pop up on website/app | 2% |
| Advertisements/offers on or through social media | 2% |

**Base: Logbook loan reborrowers where provider initiated contact (48)**

## Reborrowing amounts

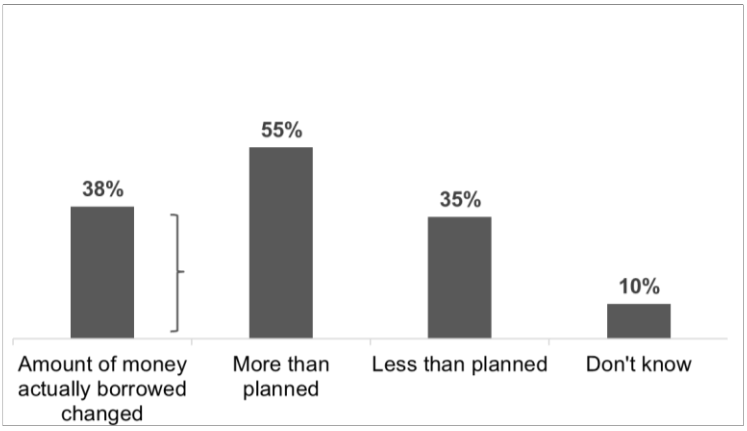
In the qualitative interviews customers made reference to being able to borrow more using a logbook loan than other products they had had, but also recognised that the value of the car was an important factor. One praised his provider for always being very clear with him that because his car wasn't worth very much his loans would always be in the region of £500-£600. As discussed earlier, another felt one agent had changed his initial valuation to accommodate what the customer wanted to borrow. The same customer described how, when his car was written off in an accident, the insurance pay out went straight to his provider to pay off his logbook loan. He then purchased the car from the provider for £50 and was able to renew his logbook loan to pay for the repairs and some extra money to treat the family. Other customers claimed to have a good idea of what they would be able to borrow based on the previous valuation and tended to ask for a top up or further loan that fitted with this. While some described borrowing exactly what they needed, others borrowed more; one customer borrowed £1,600 to fund a deposit when she moved into a new rental property, and later in the interview mentioned that the deposit had been £1,000. In the quantitative survey nearly 4 out of 5 (78%) said they knew how much they wanted when reborrowing. Nearly two fifths of these said they actually borrowed a different amount, with just over half of this group saying they borrowed more than they originally planned.

**Figures 20**: Amount borrowed (% Agree)

**Knew the amount of money wanted**


**Amount borrowed changed?**

**Amount borrowed was more or less than initially planned?**



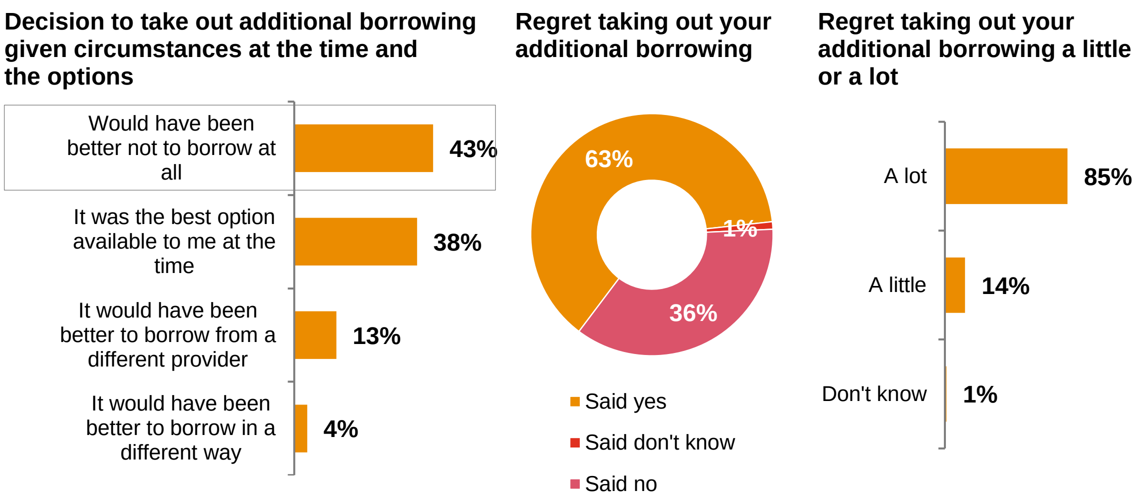

**Base: Logbook loan reborrowers (128)**

**Small base size:** Logbook loan reborrowers who said the amount of money actually borrowed changed (49)

## Feelings about the decision to reborrow

In the quantitative survey levels of regret among logbook loan customers were high, with nearly two thirds (63%) saying they regretted taking out this additional borrowing. Of this 63%, 85% said they regretted their decision to reborrow ‘a lot’ and 14% said they regretted it ‘a little’. The main reasons for regret were that the interest rate was high (75%) and that the total amount to be repaid was expensive (74%). Nearly half (49%) said the total amount to be repaid was higher than they had thought it would be.

**Figure 21:** Was reborrowing in this way the best option?




**Base: Logbook loan reborrowers (128)**

Feelings of regret were equally high in the qualitative interviews. Customers were generally aware they were paying high levels of interest and the repayments were squeezing their already very tight budgets. However, their feelings of regret appeared to be rooted in regret for the circumstances they found themselves in rather than regret for their reborrowing using a logbook loan specifically; all maintained that it had been their best (only) option at the time.

‘It’s a feeling of helplessness. It’s awful. You don’t sleep, you worry. You feel guilty about not being in a better position to support your family and about having made poor decisions in your life.’

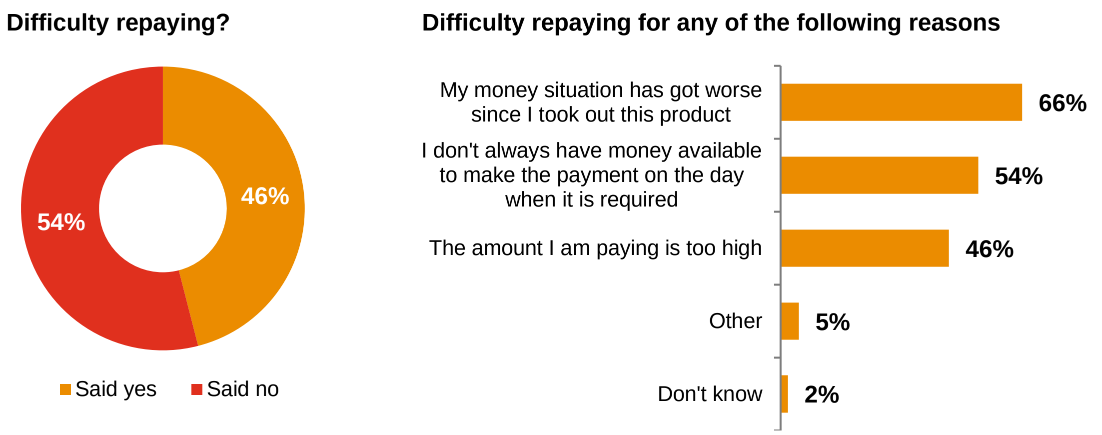
**Female, 54, Peterborough**

## Impact of reborrowing

The biggest day to day impact of the reborrowing was logbook loan customers’ difficulty with repayments, leading many to cut back on spending elsewhere. As already discussed, the qualitative interviews showed that wherever they could, customers were prioritising their logbook loan repayments over other commitments as they could not afford to lose their car. Most needed the car for work and/or for the family and saw it as a valuable asset they didn’t want to lose. Examples were also given of providers being reasonably flexible about moving payment dates and/or allowing customers to pay 1 or 2 days late; as a result, none of the customers in the qualitative research had ever missed a repayment although some had paid late on occasion. Another customer had never missed a payment but had felt very stretched and regularly cut back on food shopping to meet her logbook loan repayments.

In the quantitative survey, 46% said that they had had difficulty repaying, with two thirds of these saying their financial situation had worsened since taking out the product and over half saying they weren’t always able to make their repayments on the day they were due. 59% said that they had had to cut back on other spending to meet their repayments.

**Figure 22:** Whether had difficulty repaying logbook loan reborrowing




**Base: Logbook loan reborrowers (128)**

**Base: Logbook loan reborrowers who had difficulty repaying (59)**

## Summing up the impact of logbook loan reborrowing

Logbook loan customers had the second highest indicators of harm of the 6 high cost credit products covered in the study. In the qualitative interviews customers described feelings of embarrassment, guilt and stress caused by their repeat borrowing. While the amounts they borrowed tended not to vary greatly from one logbook loan or top up to another, the amounts were generally higher than sums they had borrowed in the past when using payday loans or home collected credit, and their repayments had increased over time while their income generally hadn't increased – and in some cases had reduced. This was supported by the findings in the quantitative survey where over half (56%) of logbook loan reborrowers said they had experienced anxiety and stress in the past few weeks as a result of their financial difficulties, a third (34%) had felt embarrassed and a quarter (24%) reported their situation having created relationship problems.

| | |
|---|---|
| 'I can cope ok until something impacts on my income, like when I had problems with universal credit.'<br><br>**Male, 37, Leeds** | 'It seems sad that the people who are the poorest have to pay more, but they have demonstrated they haven't got the ability to have normal credit.'<br><br>**Female, 54, Peterborough** |

The chart below from the quantitative survey shows the summary of customers' perceptions of the impact of their reborrowing. It relates specifically to their logbook loan reborrowing but is also associated with the high levels of other credit products held – both high cost and mainstream, whether current or historical.

**Fig 23:** Summary of impact of logbook loan reborrowing

**Summary of perceptions**

| % believe | Logbook loan |
|---|---|
| **Value of logbook loan borrowing increased** (since first logbook loan with this provider) | 39% |
| **Another decision would have been better** (not to borrow at all, borrow using a different product/provider) | 59% |
| **Regret reborrowing** | 63% |
| **Have had difficulty repaying logbook loan** | 46% |
| **Had to cut back on spending** (to meet logbook loan repayments) | 59% |
| **Missed a non-logbook loan payment in last six months** (in order to make logbook loan payments) | 46% |
| **Experienced anxiety and stress due to financial difficulties** | 56% |

**4 out of the 7 indicators were higher for logbook loans than other products in the research**

**Well over half – 59% – had had to cut back on spending to keep up with their logbook loan repayments and nearly half (47%) had missed paying other commitments to do so**

- High % compared to other High Cost products
- High % compared to other High Cost products but not the highest
- Low % compared to other High Cost products

**Base: Logbook loan reborrowers (128)**

## Logbook loan stories

### ‘Maggie’, 39, has had five logbook loans in the past five years

**Circumstances**

- Maggie is a single parent to her son, aged 10.
- She is currently unemployed and relies on benefits. She finds it hard to manage her budget because she does not have enough money each month.
- 12 years ago, after a relationship breakdown, Maggie racked up big debts spending on her credit card and was eventually declared bankrupt, which led to her losing her job.
- She struggled with her debts and said. ‘I had people knocking at my door, I was desperate’. She took out a doorstep loan to pay them off. She would never use them again as she feels it’s expensive, and she doesn’t feel comfortable with agents coming to her house.’

**Logbook loan journey**

- Maggie first took out a logbook loan of £1,000 to redecorate her house. She was told before taking out the loan that she would be able to get another £500 after she made three months’ repayments. She used this top up for bills and to help over Christmas. She paid this loan off soon after Christmas – She was keen to pay it off quickly because of the high interest rates.
- The following March, she took out another loan for £1,000 and was again told that she would be able to top up £500 in three months’ time. However, three months later, in June, her application to top up was refused. She was furious, as she had been relying on that money to take her son on holiday over the summer. She had already paid for some of the holiday, so she was forced to borrow money from her mum to cover her bills and found this very difficult.
- She still needed a bit of extra money to pay for her holiday and was so angry with her existing provider that she refinanced with another logbook loan provider, increasing her monthly repayments by roughly £100.

**Impact of repeat logbook loan borrowing**

- Increasing her monthly repayments means that Maggie has had to cut back on eating out and treats for her son.
- Her financial situation has also impacted on her health – struggling with repayments and managing the logbook loans have worsened her anxiety and impacted her physical health.

# 5. High cost personal loans

## Overview of high cost personal loan reborrowing

Relative to the other 5 products within the scope of this research, high cost personal loans had a medium impact on borrowers. While nearly three fifths (57%) of high cost personal loan customers regretted taking out additional borrowing, less than 3 in 10 (27%) had difficulties making repayments. High cost personal loan customers felt that their loans helped them be in control of their financial situation, as this form of credit was commonly used to cover other debts and pay off more expensive forms of credit. However, this was a brief reprieve for some as they were not left with disposable income each month to act as a buffer. When it came to reborrowing, high cost personal loan customers often had less clearly defined reasons for taking out additional credit. This led to regret among some, who felt they have 'nothing to show' for the loan and felt burdened by the extra debt. However, others appreciated using the credit that was available to them when they needed it as it enabled them to have the lifestyle they wanted.

Provider impact on high cost personal loan customers appeared to be high. Providers seemed to have strongly influenced borrowers' decisions to top up by contacting them to let them know they had been approved for additional credit. For some, the knowledge that the money was there acted as temptation; they found it difficult not to use it once they knew it was there. Additionally, the customers' stories suggested they felt providers were positioning top ups in a way that minimised the potential impact and didn't make them feel like a big commitment. This framing meant that not all borrowers — particularly those with lower financial capability — fully appreciated the impact of reborrowing at the time of purchase.

There was some evidence that the repeated use of high cost personal loans was habitualised, although not all felt they were stuck in a cycle of reborrowing. There were instances where borrowers would automatically default to taking out additional credit, and not fully consider any other options available to them. In other cases, borrowers didn't think there were alternatives they could use so they turned to high cost personal loans when they felt they needed to additional borrowing.

High cost personal loan customers tended to have complex borrowing histories, and often had to manage multiple repayments each month. Some borrowers experienced emotional (e.g. stress and anxiety) and physical (e.g. worsening health conditions) harm as a result of their financial situation. High cost personal loans contributed to this, but they did not singularly cause this harm.

'I have 'stuff it' moments and go on holiday [using high cost personal loan]. I'm already in debt so why not?'

**Female, 48, London**

'I get emails saying my borrowing power has gone up and it makes me think I can go on holiday with the kids, or buy things they need'

**Male, 35, Belfast**

'I don't think I could have done without it; they accepted me when I had bad credit. if I hadn't topped up for the car repairs, I could have lost my job'

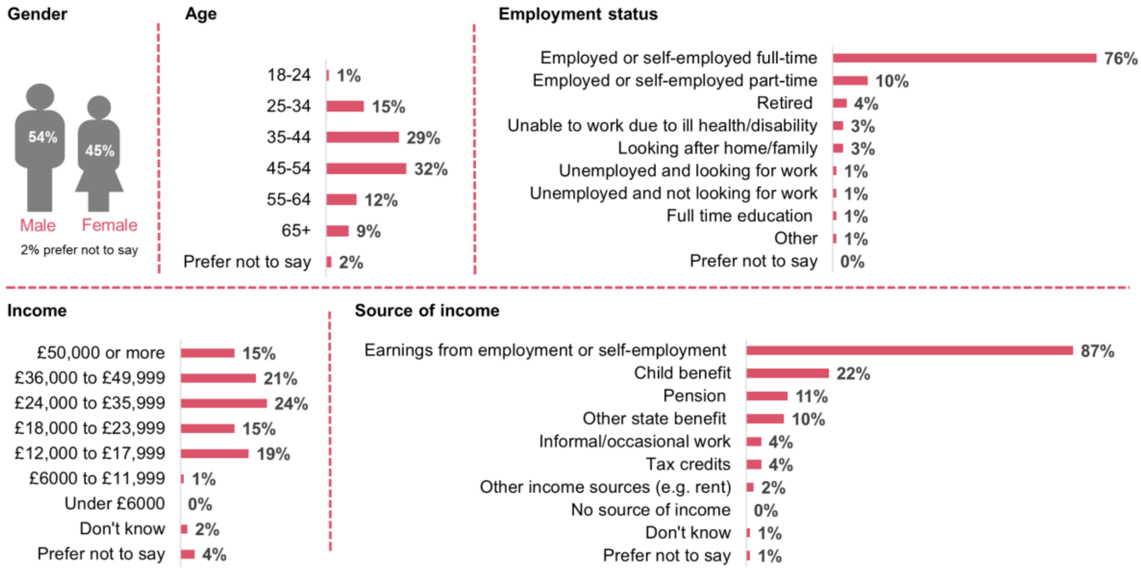
**Female, 52, Sheffield**

## Profile of high cost personal loan reborrowers

### Demographic profiling

High cost personal loan customers were slightly more likely to be male (54%) and in the middle age group (35-54). Over a third (36%) had an income of over £36,000 per year, and almost 9 in 10 (87%) were employed.

**Figure 24:** Demographic profile of high cost personal loan customers




**Base: High cost personal loan borrowers (157)**

## Borrowing behaviour

High cost personal loan customers were more mainstream compared to customers of the other 5 products included in this research. In the qualitative interviews, all had experienced some difficulty with credit in the past, but were in a much better place at the time of the interview, and for the most part were managing their credit, although some were burdened by the proportion of their income that was being spent on credit. The main reason for the improvement in their financial situation was clearing other debts. However, borrowers were used to being in debt, and managing quite well in comparison to before, so were open to using credit again in the future.

As a result, all felt relatively positive about their financial situation and optimistic about the future; paying off the loan felt like a real possibility and some aspired to improve their credit enough to consolidate their debts with a bank loan, use only mainstream credit cards or take out a mortgage. There were some who had a strong desire to be debt free, and those who could afford it, would pay extra on top of their monthly repayments. However, despite best intentions, borrowers described how their plans to pay off their loan would get derailed by unexpected expenses. It's worth noting that although there was a sense of optimism, there were some in the qualitative interviews who did not feel they were comfortable and did worry about money a lot — they were just in a better place than they had been previously.

'I log in quite commonly wishing that I could just pay it off. Every time I'm almost there, something happens.'

**Female, 49, Rotherham**

'I always pay back the maximum I can per month, it's been more recently, things are easier now.'

**Female, 52, Sheffield**

'I don't think I could have done without it; they accepted me when I had bad credit. if I hadn't topped up for the car repairs, I could have lost my job'

**Female, 52, Sheffield**

Despite their optimism about paying off the loan, being totally debt free was not the borrowers' main priority. Most had been in debt for most of their adult lives and making credit repayments was accepted as an inevitable part of their outgoings. When borrowers 'freed up' money from repaying other debts, it was used to make their lives more comfortable, rather than servicing other debts. This attitude also removed barriers to reborrowing; they were so used to paying off debt that adding more was not felt to have a big impact on their financial situation.

Some borrowers had got into difficulty with mainstream credit which prompted them to take out their first high cost personal loan to give themselves some breathing space. With hindsight, they regretted this as they realised that the bank would have helped them. In addition, many had been previously turned down for credit by banks and this made some borrowers unlikely to try again in the future.

| | |
|---|---|
| 'I don't know why I can't get approved for loans when people I know don't have jobs and they can get credit. If I got a bank loan, I'd be paying less.<br><br>**Male, 42, Cardiff** | My wife started getting threatening letters from [provider] about not paying the loan. We didn't want to get into trouble, so we took out another [high cost] loan. We didn't know you could call them, and they could help you'<br><br>**Male, 35, Belfast** |

In the qualitative interviews, borrowers described having intended their first high cost personal loan to be a one off. However, as discussed later, unexpected expenses and the influence of provider communications appeared to be driving borrowers to take out additional credit. The most common reasons for taking out the initial loan were covering a number of different expenses (31%) and repaying other debts (23%). This was borne out in the qualitative interviews, where borrowers reported using the loans to help them through periods of having lots of expenses (such as school holidays), or paying off other, more expensive forms of credit. For example, one borrower worked out that she could reduce her monthly credit repayments by using the loan to clear her credit card debt. However, she was not thinking about the total cost of the loan; she then went on to continue to use the credit cards she had paid off and as a result went back to having two types of credit to pay back. Another borrower had used loan top ups to 'free up' available balances on credit cards if she was close to her limit to make sure she would have enough money to cover her business expenses.

''When I looked at what I was paying out on the credit cards compared to what the repayments would be over the period of the loan, it [loan repayments] would be a lot smaller'

**Female, 49, Rotherham**

A minority also gave building up their credit score as a reason but this was secondary to their need for the money.

In the qualitative interviews, high cost personal loan customers had found out about this form of loan through online searches (often searching for 'loans for bad credit'), television advertising and through targeted advertising from credit reference agencies. Many of the borrowers liked to keep track of their credit score. The choice of initial provider was driven by 'whatever came up'; those using online searches tended to select the provider that was at the top without shopping around. One had chosen her provider because they had a branch in town, and she wanted to be able to manage the loan face to face.

High cost personal loan borrowers did not feel that they were trapped in a cycle of borrowing with this form of credit, but there was evidence that suggested its use was habitualised for some. Nearly two fifths (37%) first started borrowing with high cost personal loans over 10 years ago, and in the qualitative interviews, there were borrowers who had sustained use of this form of credit. Once borrowers started using high cost personal loans, it became the go-to source of credit. High cost personal loans were unlikely to be taken out for amounts smaller than £1000, and for a fifth of borrowers, the most recent loan was for over £5,000. In the qualitative research, it emerged that the total values of borrowers' loans could snowball due to the large sums involved. Borrowers tended to have broad portfolios in terms of the number of different types of credit used.

**Figure 25:** Number of high cost personal loans held with most recent provider in the last 5 years and value of most recent loan.

| Number of loans | | Value of most recent loan | |
|---|---|---|---|
| **2** | 23% | **Up to £1000** | 5% |
| **3** | 19% | **£1000 – £1999** | 20% |
| **4** | 38% | **£2000 – £2999** | 29% |
| **5** | 15% | **£3000 – £4999** | 26% |
| **6+** | 5% | **£5000+** | 20% |

**Base: High cost personal loan borrowers (157)**

**Figure 26:** Other credit products held

| | |
|---|---|
| **Credit card** | 83% |
| **Agreed overdraft** | 55% |
| **Personal loan** | 34% |
| **Payday Loan** | 29% |
| **Store card** | 28% |
| **Home secured loan** | 15% |
| **Unauthorised overdraft** | 10% |
| **Savings scheme** | 10% |
| **Guarantor loan** | 6% |
| **Rent to Own** | 4% |
| **Logbook loan** | 3% |
| **Home collected credit** | 3% |

**Base: High cost personal loan borrowers (157)**

Use of credit cards was prevalent (83%) and borrowers often had balances on multiple cards — both high cost and mainstream.

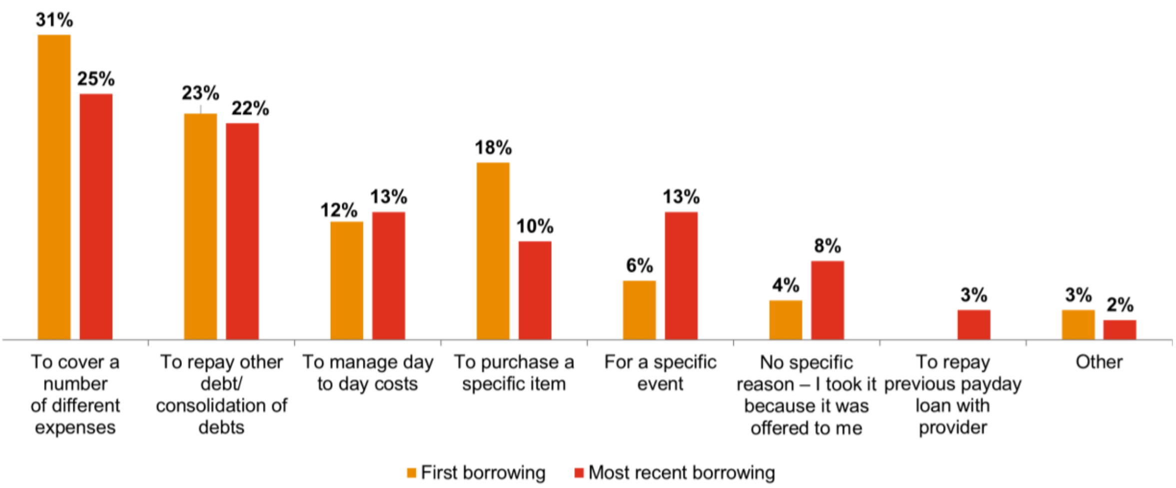
| | |
|---|---|
| 'God knows what I've spent the money on, some of it was naughty, like going to Georgia'<br>**Female, 48, London** | 'I was paying off the guarantor loan [where I was the guarantor and the borrower defaulted] so I spoke to [provider] and it would be cheaper to use [high cost personal loan] to pay it all off and then pay that back, so that's what I did'<br>**Female, 68, Peterborough** |
| 'I took out new loans as a balancing act, to balance the ones I already had'<br>**Male, 35, Belfast** | 'I log in [to my account] quite a lot wishing I could pay it off… I could save 3 grand'<br>**Female, 52, Sheffield** |

## Decision to reborrow

### Purpose of borrowing

The quantitative research revealed that the 2 most common reasons for the first and most recent loan were the same. Covering a number of different expenses was the most common reason followed by repaying other debts. For nearly 1 in 10 (8%) the credit was not taken for a specific reason but because it was offered —this is explored further in the next section.

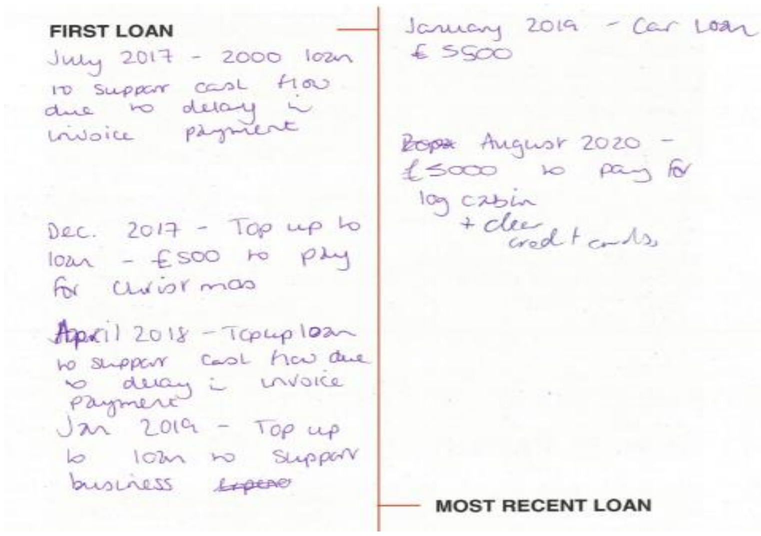
**Figure 27**: Purpose of first and most recent borrowing




**Base: High cost personal loan reborrowers (157)**

In the qualitative interviews, borrowers gave a mix of reasons for topping up their loans but in all cases, there appeared to be an underlying reason for needing the loan, but this was not necessarily what the loan ended up being spent on. The fundamental reasons for needing the top up were either needing a large sum of money to make a big purchase — for example to go on holiday, get a new car, pay for car repairs or school fees — or going through a period of having a lot of expenses — such as setting up a new business, moving to a new house, home renovations, Christmas or a wedding. However, in reality, the loans were being used to help with other everyday expenses as well. Some borrowers used the money to make repayments on other credit; particularly the mortgage if they had one as this was usually a priority payment. Credit cards were also paid off using funds from loan top ups, to free up credit to spend. Borrowers also used the top ups to manage general expenses and bills. They were being used not only to cover the cost of essentials, but also to maintain borrower's lifestyle so they could manage their larger expenses without needing to cut back.

> 'I got [the top up] to make things easier over Christmas, I have enough to get by but it's hard when you need to get presents'
>
> **Male, 42, Cardiff**




This extract from a money diary demonstrates one borrower topping up their loan multiple times, each time for a different reason.

## Choice of product

When it came to reborrowing, just over two fifths (43%) of customers believed a high cost personal loan was their only option, while nearly a third (32%) chose it because they had borrowed from their provider before. Due to high cost personal loan customer's complex borrowing histories, borrowers had often been turned down for credit in the past and so did not think other options would be available to them. This was not just a perception however, as in the qualitative interviews all of the high cost personal loan customers were monitoring their credit score and knew it was not high enough to be accepted for mainstream credit. As a result, borrowers chose to top up with their existing provider because they were confident they would be accepted, were comfortable and familiar with the process and could get the money quickly.

### Consideration of alternatives

Two thirds (66%) of borrowers said they had considered other options before taking out additional credit. Bank loans were by far the most common option considered, with 61% considering this. As discussed earlier, although high cost personal loan borrowers aspired to use mainstream credit, they didn't think they would be eligible based on their previous experience and low credit scores. Despite considering bank loans as an option, in the qualitative interviews these perceptions meant none had applied for a bank loan instead of a high cost personal loan. Nearly a third (32%) had considered payday loans and/or borrowing from friends and family although these 2 alternatives were dismissed quickly in the qualitative research. Half of borrowers had considered not taking out the credit agreement and in the qualitative interviews, the customers explained that although they would have liked not to have taken out the credit, they felt they needed the money and didn't have any choice but to find it. The main reasons for thinking twice about taking out another credit agreement were either not wanting to increase their monthly repayments, or their total amount of debt.

Among those that did not consider any alternatives (34%), for nearly a third it was because they couldn't ask anyone to lend them the money (32%). This was also seen in the qualitative research — borrowers either did not know anyone with enough money, or they did not want to rely on friends or family members for help. Just over a quarter (26%) didn't think they would be accepted for other credit — as discussed above. A fifth stuck with what they knew — 21% couldn't think of an alternative at the time, and 21% felt that this type of borrowing worked well for them. In the qualitative interviews, it appeared that borrowers would habitually use this form of credit when they needed the money, and that unless there was an issue with a provider, there wasn't a need to look elsewhere.

| | |
|---|---|
| 'I asked the bank to extend my overdraft, so I had to [use high cost personal loan]'<br>**Female, 48, London** | '[High cost personal loan] has never been my first choice, the interest rate is ridiculous, but I don't have a choice'<br>**Female, 48, London** |
| 'I considered taking out a guarantor loan, but I didn't want to burden my sister'<br>**Female, 52, Sheffield** | 'I wouldn't be with [high cost personal loan provider] if I could get a bank loan'<br>**Male, 42, Cardiff** |
| 'I can't borrow from normal providers; my choices are limited, and it makes you feel disheartened'<br>**Female, 48, London** | |

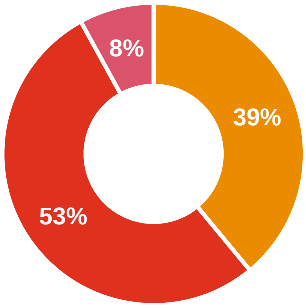
## Applying for reborrowing

### Contact with provider

There was evidence of provider influence over the decision to reborrow among high cost personal loan customers. While over half of borrowers (53%) stated that they had contacted their providers about getting additional credit, nearly 4 in 10 (39%) said the provider had made first contact.

**Figure 28:** Communications

**Who made first contact to talk about getting additional credit?**




- My provider asked me about getting additional credit
- I asked my provider about getting additional credit
- Don't know

**Base: High cost personal loan reborrowers (157)**

**Communication received before most recent borrowing experience**

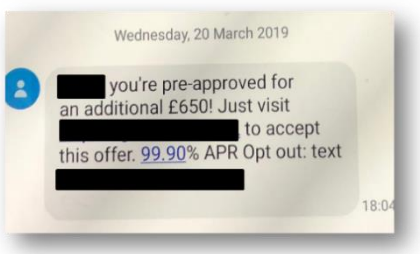
| | |
|---|---|
| **Emails** | **67%** |
| **Text messages** | **43%** |
| **Correspondence/letters** | **18%** |
| **Phone calls** | **14%** |
| Pop up in website or app | 5% |
| Advertisements/offers on or through social media | 5% |

**Base: High cost personal loan reborrowers where provider initiated contact (83)**

This was echoed in the qualitative research, where borrowers described how providers would make them aware of their ability to top up. There were some cases where borrowers had not been aware they were able to top up until the provider told them. These borrowers then described how, once they knew that more borrowing was available, they started to think of how they could use the money. As discussed above, money was often tight for these borrowers so it was easy for them to rationalise what they could use the money for. Often, messages received by borrowers specified the amount they were eligible for, which influenced the amount they topped up. Borrowers had often been turned down for credit in the past and were keen to avoid being rejected again; pre-approval reassured them it wouldn't happen and removed a potential barrier to topping up. Two of the borrowers interviewed in the qualitative research spoke about how they preferred to do a soft search themselves first, so they could be confident their application would be successful.

In the quantitative survey, while over half (53%) of the customers had contacted the provider first, the qualitative interviews suggested this didn't mean there was no communication from the provider before the loan was taken out. The high cost personal loan customers we spoke to in the qualitative phase said that although they hadn't necessarily received communications from their provider at the time the loan was needed, the fact they knew of their ability to top up influenced their decision.

The most common ways providers got in contact with borrowers were emails (57%) and text messages (33%). Of those who said that the provider contacted them first, two thirds (67%) had received emails and 43% had received text messages. In the qualitative interviews, borrowers shared how providers contacted them with texts, emails and phone calls — sometimes several messages over a few days.




A text message received by one borrower telling him he had been pre-approved for credit

'There was a nagging at the back of my head, just knowing it was there… it was a chance to get some money to pay for Christmas or pay for whatever you needed.'

**Male, 42, Cardiff**

'They're dangling a carrot—you know the money is always there and you're always going to need it.'

**Female, 68, Peterborough**

| | |
|---|---|
| ‘They take the time to know me and know my circumstances, they’re brilliant in there’<br><br>**Female, 68, Peterborough** | ‘I always do a soft search first so I know I can be accepted. I don’t want to waste time applying only to get rejected—the process is long winded’<br><br>**Female, 49, Rotherham** |

### Reborrowing amounts

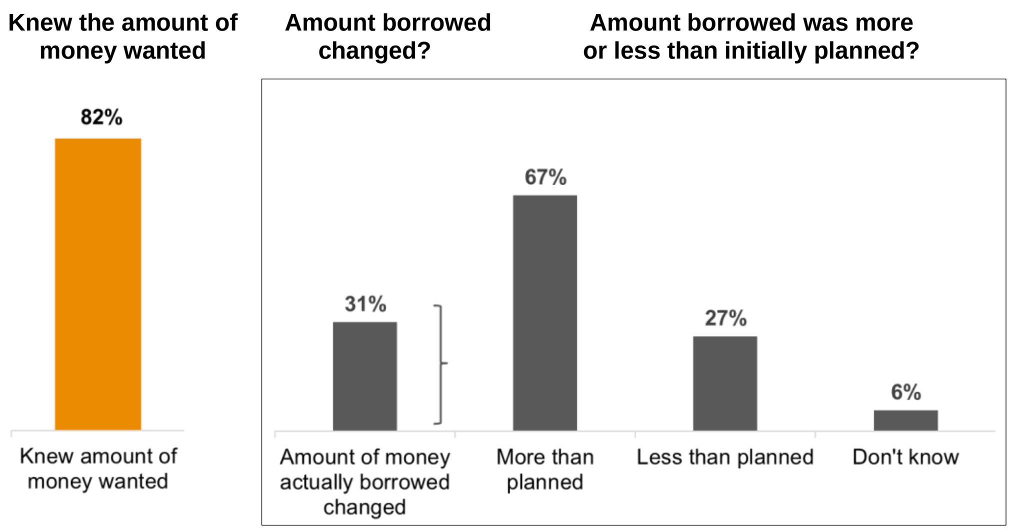
Over 8 in 10 (82%) said they knew the amount of money they wanted to borrow, and that this didn’t change after discussing with their provider. However, in the qualitative interviews there was some evidence of provider influence, as borrowers were often aware of how much credit they had been preapproved for. Although just under a third (31%) reported that they changed the amount borrowed after discussing with their provider, the qualitative interviews revealed 2 main ways in which providers influenced their decision at the application stage:

- **Positioning of the top up:** Borrowers felt that providers emphasised the ‘small’ amount that’s being topped up, rather than the total loan amount — in terms of both the amount borrowed (e.g. a £650 top up, not a £3,500 loan) and the total cost the borrower needed to repay
- **Explanation of the terms:** Borrowers with lower financial knowledge and confidence had a somewhat patchy understanding of the terms of their agreement, and it appeared that some had been misled. One borrower, for example, was concerned when she went to take out the loan that the APR was too high. She raised this with her agent, who explained that she could have a lower APR if she borrowed more money. She accepted this and felt as if she had done the right thing by ‘negotiating the APR down’; she was not aware of the increased total cost of the loan.

Additionally, borrowers’ cognitive biases meant they did not always consider the impact of refinancing their loan. There was some consideration that monthly repayments would increase, but confidence bias and framing by the provider meant that some took out their agreements without a full appreciation of the impact that the higher monthly repayments could have on their financial situation.

Within the qualitative interviews, there was only one example of a borrower being offered the option of running 2 loans concurrently, rather than topping up an existing loan. The borrower took this option as the agent said it would be cheaper for her — however she did not enquire about this when she topped up most recently as she assumed that the provider would have told her if there was a cheaper option, and that she would do this each time she borrowed.

**Figure 29**: Amount borrowed (% Agree)




**Base: High cost personal loan reborrowers (157)**

**Small base size:** High cost personal loan reborrowers who said the amount of money actually borrowed changed (48)

### Affordability checks

Borrowers from the qualitative interviews topped up using the channel they felt most comfortable with; online, using an app or face to face. Each channel had a slightly different process regarding affordability checks. When topping up online and face to face, borrowers reported going through the exact same affordability checks each time. However, when topping up via an app, one borrower stated that they did not need to go through any checks, only submitting evidence of their income and outgoings. This added convenience means there was greater potential for borrowers to top up impulsively.

There was some evidence of providers pushing through affordability checks to sell products. One borrower described how their provider suggested they put the loan in their partner's name. In another instance, a high cost personal loan customer believed he was mis sold a loan as the agent put unguaranteed overtime as income. When he stopped working overtime, he struggled to make the repayments.

'We passed the affordability checks, but in reality it doesn't work that way…. You never think that down the line you'll only have one wage and have to pay [for it all]'

**Male, 35, Belfast**

## Feelings about the decision to reborrow

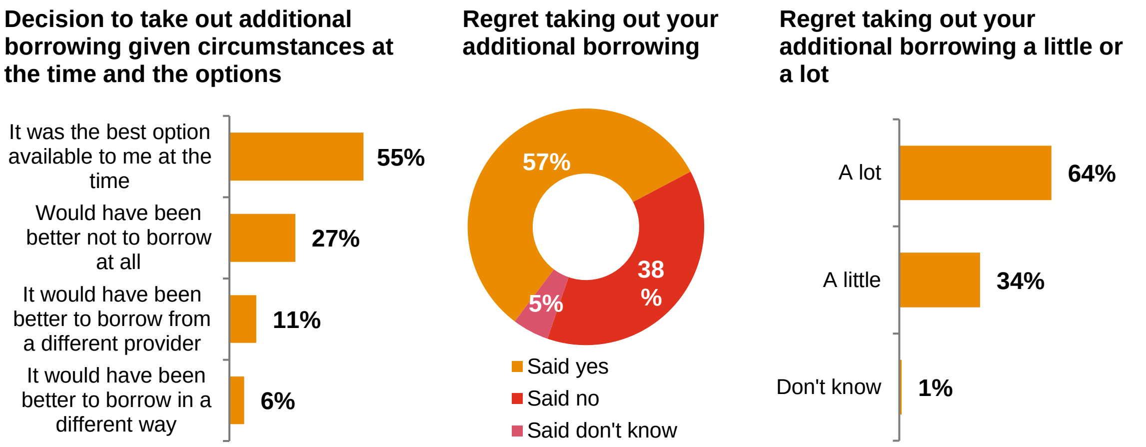
Over half (55%) felt that reborrowing was the best option available to them at the time, but over a quarter (27%) felt that it would have been better not to borrow at all. In the qualitative interviews, high cost personal loan customers had mixed feelings about their loans. They regretted being in their financial situation and some regretted topping up their loan but they did not feel that there were other options available to them at the time. For some, a source of regret was they were unable to pay their loan off and take another step towards becoming debt free.

Compared to some other products, in the qualitative interviews high cost personal loans felt relatively professional to borrowers — they were seen more like a bank loan than other high cost options, and as a result there did not appear to be the same stigma associated with them as for some other forms of credit. Borrowers were universally aware that they were not getting the best rate, but they did not feel it was as bad as other products — such as payday loans, and some had managed to reduce the amount of money they were paying out to creditors by repaying those debts with their high cost personal loan.

Levels of regret were relatively high, with 57% regretting their additional borrowing. In the qualitative interviews, this was often because top ups were used less often for a specific purchase, which made some feel that they did not have much to show for the money they borrowed. The main reason for regret was that the total amount to repay was too expensive. In the qualitative interviews, borrowers said they hadn't thought much if at all about the total amount repayable, and due to the amounts they were borrowing the total amount could increase a lot. Borrowers did not tend to think about the total cost of the loan at the point of taking it out; they were more focussed on the monthly repayments. However, after a period of time — sometimes a few months after topping up — some of those we spoke to had realised how much they were spending on credit. High interest rates were also a source of regret. As discussed above, although one borrower felt the rates were reasonable for someone with a poor credit score, others didn't feel they were getting a good rate and would have preferred a lower one.

> 'I think the interest rate is pretty reasonable for people with bad credit'
>
> **Female, 49, Rotherham**

**Figure 30**: Was reborrowing in this way the best option?

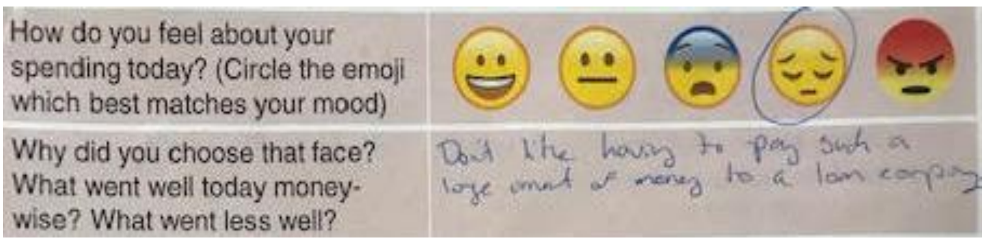



**Base: High cost personal loan reborrowers (157)**

## Impact of reborrowing

Although well over half of high cost personal loan customers in the quantitative survey regretted taking out additional borrowing, less than a third (27%) said they had difficulty repaying the loan. For those that were having difficulty, the most common reasons given were their money situation having worsened since taking out the loan, and the monthly repayments being too high. These reasons also emerged in the qualitative interviews, where most borrowers described how they had had trouble meeting their repayments at some point during the course of the loan. Those juggling multiple credit commitments had found that the amount of interest they were paying became a burden. Some felt demotivated as a result, and powerless to get out of debt, as they were only paying off a small amount of the principal sum.

Borrowers in the qualitative interviews also reported feeling frustrated and trapped; all their money was going on credit – including their wider borrowing portfolio – which meant they had no spare money to build up a buffer that would prevent them needing to take out another loan in the future. More commonly, borrowers found themselves cutting back on spending to meet their repayments. This was mirrored in the quantitative survey, where over half (55%) said they had cut back on spending to meet their repayments.




As discussed above, for some in the qualitative interviews, increasing the value of their loan by topping up had led to increased monthly repayments which they found themselves unable to manage. Borrowers didn't think the increase in monthly repayments had sounded a lot at the time, but if their circumstances changed it could cause problems as they didn't have a buffer. For example, one borrower had changed jobs and could no longer earn overtime, while another had had his hours reduced. In both cases this had meant having to find a way to cut back on other spending to make up the shortfall. A third had split from his partner and had to cover the cost of repayments himself that had previously been shared.

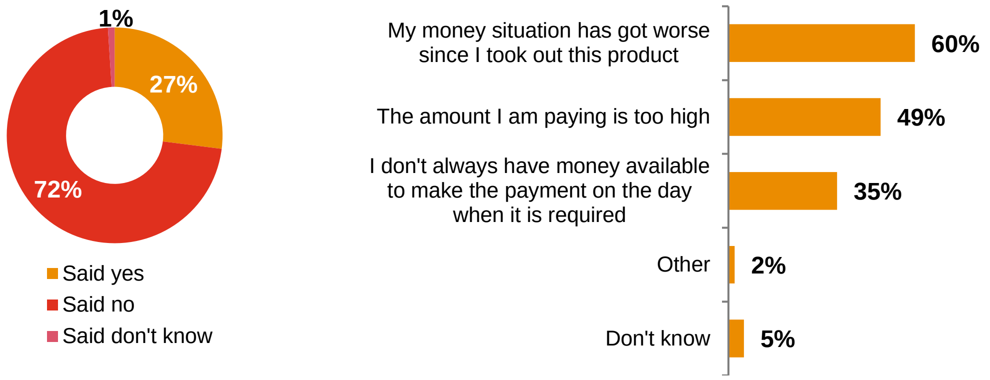

The borrower in the diary extract above was constantly worried about money.

In the quantitative survey, the third most common reason for having difficulty making repayments was not having money available when the payment needed to be made.

In the discussions borrowers also described the detriment they felt to their physical and mental wellbeing as a result of their high cost personal loans and their wider financial situation. In the quantitative survey nearly half had experienced anxiety and stress as a result of their financial difficulties. In the qualitative, borrowers described how they ‘always’ felt stressed and that money was always on their mind; some had also had trouble sleeping. In terms of physical wellbeing, some believed that the stress of their financial situation had harmed their health; one described how she felt her financial difficulties had hindered her recovery from cancer. Another borrower was concerned for her future health; she had wanted to retire by 70 but due to her most recent reborrowing but wasn’t going to be able to for an extra few months, and worried that her health would deteriorate in the meantime.

| | |
|---|---|
| ‘You get made redundant, you’re struggling to work for yourself. I’ve had skin cancer and ovarian cancer, both are very hard to deal with, but even harder when you’ve got financial problems’<br><br>**Female, 52, Sheffield** | ‘I wanted to have it all paid off by the time I was 70 so I can retire, but I’m going to have to stay working a bit longer now’<br><br>**Female, 68, Peterborough** |
| ‘I want to take responsibility, but it’s just so hard to get out. I’m not earning badly, but it all just goes on interest.’<br><br>**Female, 48, London** | ‘They say they’re there to help people get out of bad credit, but their interest rates are extortionate. It’s not helping people get out of debt’.<br><br>**Male, 42, Cardiff** |
| ‘I have lost sleep thinking about money, I feel better now I have a plan’<br><br>**Female, 48, London** | |

**Figure 31**: Whether had difficulty repaying high cost personal loan reborrowing




**Base: High cost personal loan reborrowers (157)**

**Base: High cost personal loan reborrowers who had difficulty repaying (43)**

## Summing up the impact of high cost personal loan reborrowing

Overall, high cost personal loan borrowers felt relatively high levels of regret over their reborrowing. In the qualitative interviews, it emerged that this regret was not down to their high cost personal loan alone, and often borrowers regretted the state of their financial situation more broadly. In fact, most felt that they would top up their loan if they were in the same situation again, so although they felt regret, they did not feel that they had any other options. Provider influence was particularly strong for this product; borrowers were prompted to top up their loan by provider communications, convinced to take out more money than they initially intended and/or borrow over a longer period. Although customers felt that providers were providing a good service by allowing this, they didn't think about the long term impact this could have on them. Less than a third had experienced difficulty making their repayments, but among that third, and in the qualitative research, there were high levels of stress and anxiety reported, as well as the worsening of physical health conditions. The chart below from the quantitative survey shows the summary of customers' perceptions of the impact of their reborrowing. It relates specifically to their high cost personal loan reborrowing but is also associated with the high levels of other credit products held, both main stream and high cost borrowing.

**Fig 32:** Summary of impact of high cost personal loan reborrowing

**Summary of perceptions**

| % believe | High cost personal loan |
|---|---|
| **Value of high cost personal loan borrowing increased** (since first high cost personal loan with this provider) | 54% |
| **Another decision would have been better** (not to borrow at all, borrow using a different product/provider) | 45% |
| **Regret reborrowing** | 57% |
| **Have had difficulty repaying High cost personal loan** | 27% |
| **Had to cut back on spending** (to meet logbook loan repayments) | 55% |
| **Missed a non-HCPL payment in last six months** (in order to make High cost personal loan payments) | 34% |
| **Experienced anxiety and stress due to financial difficulties** | 48% |

High % compared to other High Cost products
High % compared to other High Cost products but not the highest
Low % compared to other High Cost products

**Base: High cost personal loan reborrowers (157)**

## High cost personal loan stories

### ‘Alan’, 42, has had 5 HCPLs in the past 5 years

**Circumstances**

- Alan works as a caretaker, but is training so he can earn more money.
- He lives with his daughter.
- He is hoping to improve his credit score in the next couple of years so that he can get a mortgage and buy a house.
- His salary as a caretaker is fixed but he also does car boot sales to earn a bit of extra money.
- Alan has used credit a lot in the past. Previously, he used Home collected credit to get him from payday to payday and has used RTO and is paying off catalogue debts.
- Now, he struggles for money due to the high cost of his loan and high outgoings. He feels money is a source of stress and he worries about ‘running out of petrol at any minute.’

**HCPL journey**

- Alan took out the original loan in 2017 to consolidate his debts. He was homeless and needed money to set himself up and to be able to pay increasing bills.
- Since the original loan, Alan has topped up 5 times – to pay for presents at Christmas, pay for renovations, moving costs (he moved again) and to manage day to day costs.
- He found the process of applying to top up very convenient and easy to do. The positioning of the loan as a top up made the amount borrowed seem less. For example, he thought of his most recent loan in terms of an extra £700, not a new loan for £2,700.
- Because of this, Alan did not fully consider the impact increased monthly repayments were going to have on his financial situation.

**Impact of repeat HCPL borrowing**

- Alan appreciates that the money he's borrowed has allowed him to spend on things that were important to him at the time and temporarily relieve stress. However, he felt that it was a short term benefit at the expense of long term wellbeing.
- As a result of his most recent top up, he felt that the cost of reborrowing has become too much and is now a stress and a burden.
- He felt an element of shame towards borrowing. He didn't want his family or daughter to know that he was in as much debt as he is in and didn't feel able to tell them about it.
- Alan regrets his most recent loan and would try to get the money from elsewhere e.g. boot sales or a second job if he were in the same situation again.

### ‘Russell’, 35, 2 loans in the past 5 years

**Circumstances**

- Russell works in the public sector. His income fluctuates as his overtime is not a guaranteed income.
- He lives with his 2 children and is recently separated from his wife. He is the only bread winner in the house now.
- Russell began using credit cards and bank loans when he was 19. He didn't realise the impact it would have later and felt credit was widely available at the time. He felt pressure to keep us with his friends and peers and had 'luxury' purchases which he used HCPL to fund.
- He feels trapped by his debt and has borrowed to pay off interest or try to consolidate existing loans. He described his 'balancing act' as a kind of stress response to existing financial difficulty.

**HCPL journey**

- Russell first took out a high cost personal loan to cover repayments on a bank loan and pay off his overdraft.
- He took out his most recent loan very quickly and described the process as 'too easy'. The provider completed their affordability checks, but Russell felt the process of just ticking the T&Cs was too easy. He felt he needed the money ASAP and was conscious that he didn't shop around or think about the APRs.
- He has had issues paying back the loan when he changed job and stopped getting paid overtime.

**Impact of repeat HCPL borrowing**

- His use of credit has had a negative impact on his mental and physical health. The thought of losing the house and making his children homeless caused stress and anxiety and he didn't know who he could turn to for help. As a result, he couldn't sleep, and his physical health issues worsened.
- Russell is now feeling more relaxed as he opened up to his family for the first time, who are helping him with his debts.
- Overall, he feels more in control but still has some worries.

# 6. Guarantor loans

## Overview of guarantor loan reborrowing

Of the 6 products within the scope of this research, guarantor loans sat near the top in terms of their impact on borrower wellbeing. Two fifths (40%) of borrowers regretted their decision to reborrow, and of those, 44% claimed their additional borrowing has had an overall negative impact on their wellbeing. In the qualitative interviews it emerged that guarantor loan customers often had a wide portfolio of credit products, and as a result, the stress and anxiety experienced by reborrowers came from their general financial situation, rather than their guarantor loan specifically — although guarantor loans certainly contributed. Additionally, the involvement of a guarantor had the potential to increase the pressure felt by borrowers to repay, as they did not want to default and the guarantor has to bear the consequences.

The qualitative research showed that borrowers often had complex borrowing histories. Many had got into difficulty in the past with mainstream and/or high cost credit. This led to them needing a guarantor in order to secure credit due to their own poor credit scores. There was also evidence of the total cost of borrowers' loans snowballing after multiple top ups. Consideration of the total cost of the loan tended to be secondary to the perceived need for the top up and the affordability of monthly repayments. Given the large sums of money involved with this type of credit, there was a high potential for harm in this area due to the long term burden of debt and increasing monthly repayments. When speaking to the guarantors, in the main they appeared to be well informed about and involved in the top up process — although this was not always the case. All the guarantors we spoke to were close to the borrower; typically a parent but also other relatives, friends and in one case a partner. The guarantors all wanted to help their loved one out and had high levels of trust in them. However, borrowers did not always appear to have disclosed the full extent of their financial situation, or their use of other credit products, to their guarantor.

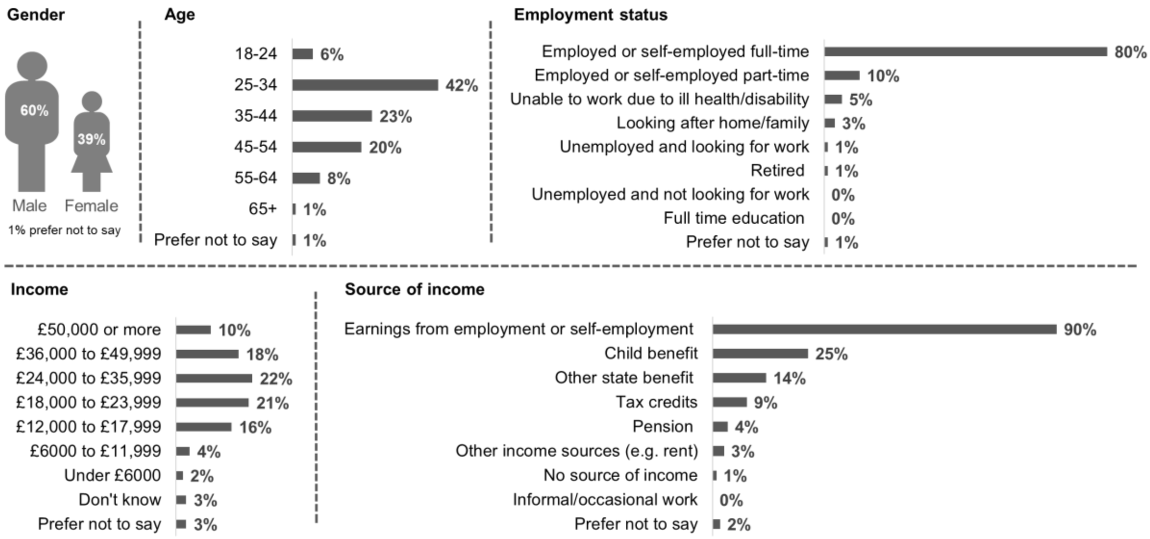
> 'I can usually make the repayments each month, and I have a good life, so it's OK. But sometimes, if I look at how much I will have to pay in interest, I can't believe it. In around 3 years' time, I will be in my early thirties, and if I have paid back my loans, I will have paid off £18,000 in total. And I just think, you are so stupid, you could have bought a house, you could have done so many things with that money, especially as a young person. I think, why did you do this to yourself.'
>
> **Male, 29, London**

## Profile of guarantor reborrowers

### Demographic profiling

Borrowers with a guarantor loan were more likely to be male (60%) and almost half were aged 18-34. The vast majority (90%) were employed and said earnings from employment was their source of income. Half (50%) of those who gave their household income said that it was over £24,000.

**Figure 33:** Demographic profile of guarantor loan customers




**Base: Guarantor loan borrowers (126)**

## Borrowing behaviour

The qualitative research showed that borrowers had a poor credit history — with many having got into trouble with both mainstream and high cost credit in the past. Several described how their use of payday loans and credit cards in the past meant they had a poor credit score. Borrowers started using guarantor loans because they needed to access a larger sum of money for a big purchase. Often, borrowers described guarantor loans as a way to consolidate their debts. At the same time they tended to be impulse spenders; despite their aspiration to be debt free, or at least to be managing their debt better, they described how they would often continue using the credit they had just paid off alongside making repayments for their guarantor loan. From the money diaries, it was clear that this was a source of frustration for some, who felt powerless to control their spending due to unexpected (but not always necessary) costs, such as social events and new clothes.

The qualitative interviews identified the following ways borrowers were introduced to guarantor loans:

Google searches: Some were proactively looking for credit—specifically a loan and searched online to find ‘loans for bad credit’ due to their perception that they would not be eligible for a bank loan, or other mainstream forms of credit.

Targeted advertising: There were examples where borrowers were exposed to advertising from providers on social media, such as Facebook Messenger and Instagram. The advertising appears in their inbox, which some felt to be intrusive, and acted as a temptation.

As with other products covered within this study, borrowers often intended for their initial loan to be a one off, with many unaware that they would be able to top up the loan later. Over half of the quantitative sample had started using guarantor loans within the past 1-5 years but interestingly, a quarter had been using them for more than 10 years. This demonstrates how reliance on this product can develop over time, and the difficulty that some customers have stopping using it once they start. The qualitative discussions suggested that it was the high value of the loan that caused this sustained use; this was evidenced in the money diaries.

Additionally, the money diaries did not reveal significant regular topping up of the loans, and in the quantitative survey less than half of borrowers (44%) had reborrowed more than once in the past 5 years, suggesting that reborrowing with guarantor loans is not a ‘go to’ source of credit, compared to similar products like high cost personal loans. Exploration within the qualitative interviews revealed that although the ease of topping up and familiarity with the process were strong drivers of reborrowing, needing to approach the guarantor acted as something of a deterrent compared to other high cost credit products.

**Figure 34:** Number of guarantor loans held with most recent provider in the last 5 years and value of most recent loan

| Number of loans | | Value of most recent loan | |
|---|---|---|---|
| **2** | 56% | **Up to £3,999** | 29% |
| **3** | 16% | **£4000 – £5,999** | 35% |
| **4** | 17% | **£6,000 – £7,999** | 14% |
| **5** | 3% | **£8,000 – £9,999** | 10% |
| **6+** | 9% | **£10,000+** | 12% |

**Base: Guarantor loan borrowers (126)**

In the qualitative interviews some borrowers expressed the concerns they had had about taking out their first loan. Although some had felt comfortable approaching their guarantor and asking for their help, others were initially hesitant about it as they did not want to reveal their financial situation or admit that they needed help. There were concerns from a minority that they would be putting the guarantor at risk by asking them to secure their loan. These concerns were usually focused on the possibility of their circumstances changing, for example if they lost their job. At the same time the strength of the (perceived) need for credit was usually enough to allow them to overcome their concerns and approach the prospective guarantor.

Discussions with guarantors indicated that borrowers did not tend to go into detail about the reasons for the loan when approaching them to act as guarantor. They generally had a better understanding when it was for a big, 'obvious' expense such as a holiday or new car, but not when there were varied reasons for the loan, such as to cover a range of different costs or consolidate other debts. There was a sense that guarantors didn't probe for much information; they were happy to become a guarantor to help a loved one and did not feel it was their business to know the ins and outs of the loan. There was an element of awkwardness talking about money evident in both the guarantors and the borrowers that meant that conversations about taking out the loan – and subsequent top ups – were brief. Guarantors had high levels of trust in the borrowers, and they saw it as the role of the provider and the borrower to determine affordability. Just one guarantor had looked at the borrower's income and outgoings in any detail to assess affordability for themselves.

'He didn't say what it was for. He got a car but wanted to change it, so I assumed that's what he needed the cash for'

**Guarantor, Father in law**

'We just thought it was a way that he could have a lump sum of money so that he could get what he needed'

**Guarantor, Mother**

'I ask can you afford it, show me how you can afford it. Because ultimately it comes back to me if you can't'

**Guarantor, Friend**

In a number of the qualitative interviews there was evidence of borrowers not being completely honest with their guarantors about their financial situation. For example, one borrower asked his father in law to be a guarantor for a loan for a new car but positioned the need for a guarantor as a way for him to get a better rate, rather than because of his poor credit score. The guarantor was a bit surprised, but just assumed that it was 'how loans work these days'. In another example, one borrower did not feel able to tell her dad the full extent of her debt. However, this was because she felt he would be disappointed in her, rather than a deliberate attempt to mislead him so he would agree to become her guarantor.

'If my dad knew how much credit I got [sic] he would kill me'

**Female, 29, Cardiff**

'He's got a good head on his shoulders, he wouldn't do anything stupid like take out a payday loan'

**Guarantor, Father in Law**

On the whole, the guarantors we spoke to felt comfortable with their role and were fully aware of the terms of the agreement. Most did not do their own research and relied on information from the provider and the borrower. They were all clear that they would be liable for missed payments, but some believed they would be liable only for any missed payments, not the entire loan. In other words, they hadn't considered the possibility of the borrower defaulting. Among the guarantors there was a range of attitudes towards the loans. Some felt that this line of credit was a good option for the borrower while others felt it was too expensive; they didn't like the idea of the borrower getting into debt. Where they could afford to, some guarantors had offered to lend the borrower the money themselves, but the borrowers' pride or desire for control had prevented them taking up the offer.

> 'Living your life with no money is not that interesting. I work very hard, long hours, and I wish I wasn't the way I am, but to recover from stress and work I can't just go sit at home. I need to party, travel, see my friends, so I am a big spender. My salary is good; I could cover it with my salary, but I had some bad luck with my flat deposit and my travel bookings, and now I am in debt, so I have to use more of my salary to cover repayments and I need to borrow more to live my life. But it's my fault, I have a bad attitude.'
>
> **Male, 29, London**

The qualitative interviews also suggested that borrowers tended to see their guarantor loans as being for larger, 'one off' expenses, such as a holiday, a new car, or to repay other debts, and that other credit products – among those that held them – were used to manage day to day expenses. However, after further unpicking the purpose of the loans with the borrowers, it emerged that this distinction was not always as clear as the borrowers initially thought; there was some blurring in the roles of the different products they used.

Looking at wider borrowing portfolios, borrowers were more likely to hold more mainstream credit products as well as their guarantor loan, including credit cards (61%), agreed overdrafts (40%) and personal loans (13%). However, over 1 in 10 (13%) also had a payday loan. In the qualitative interviews, there was a range in terms of the number of credit products borrowers were repaying; some had a wide portfolio and were juggling repayments for several different credit products, whereas others only had their guarantor loan.

**Figure 35:** Other credit products held

| | |
|---|---|
| **Credit card** | 61% |
| **Agreed overdraft** | 40% |
| **Payday loan** | 13% |
| **Personal loan** | 13% |
| **Store card** | 12% |
| **Home secured loan** | 8% |
| **Unauthorised overdraft** | 7% |
| **High cost personal loan** | 6% |
| **Savings scheme** | 6% |
| **Rent to own** | 6% |
| **Home collected credit** | 5% |
| **Logbook loan** | 2% |

**Base: Guarantor loan reborrowers (126)**

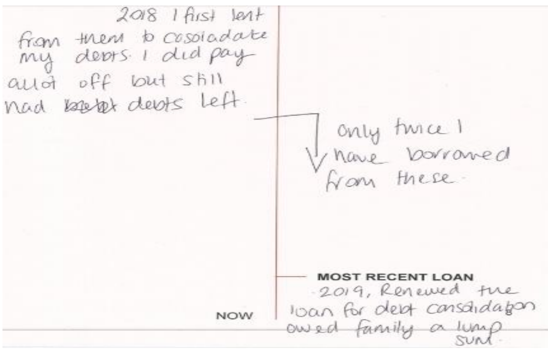
## Decision to reborrow

### Purpose of borrowing

The quantitative survey revealed differences between the purpose of the first and most recent loan. The most common purpose for the first loan was to repay other debts (29%), followed by purchasing a specific item (21%) and covering a number of different expenses (20%). However, the reasons behind most recent borrowing were purchasing a specific item (28%), repay other debts (21%) and for a specific event (17%). Qualitatively, borrowers attributed the purpose of the reborrowing for one off 'big ticket' expenses (both planned and unexpected) such as a new car, a holiday, or to 'consolidate' other debts, and it was less common for them to initially speak about using the money for a range of different expenses.

There were instances where borrowers were using the money to consolidate their debts (e.g. credit cards, overdrafts, friends and family), but so they could continue to use them, not to clear the debt completely, which created the need for further consolidation down the line for some. Alternatively, some borrowers initially saw this form of credit as a way to consolidate debts, but once they had taken out the loan, they started to view it as an open line of credit that could be used for a wide variety of expenses. It was then hard for participants not to take advantage of this when they were experiencing 'tighter' times with money. Although there was some reluctance to reborrow due to needing to tell their guarantors, this didn't appear to greatly impact decisions to reborrow.

(Right) This borrower used their initial loan, and top up to 'consolidate' their borrowing

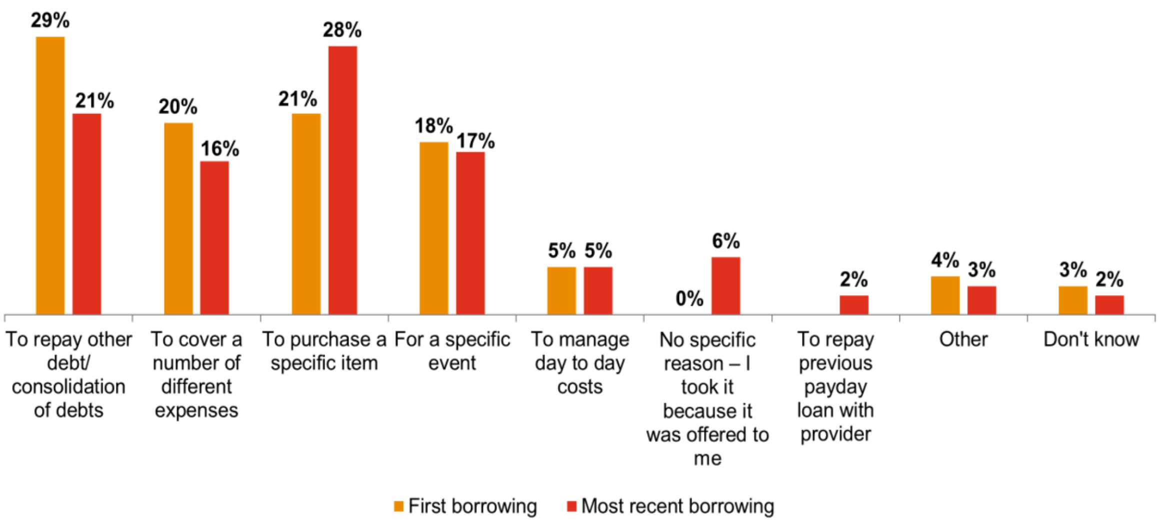



'If I pay [provider], in 6 months I can probably top it up again.

**'Male, 30, Sheffield**

Interestingly in the qualitative research, even when borrowers said they'd taken their most recent loan for a specific item or event, further probing revealed the money was used to cover a wider range of expenses, including managing bills, general expenses and additional bills. In this sense, for some the tops ups are a way for borrowers to 'free up' some short term spending money, as well as providing the sums needed to cover larger expenses.

**Figure 36:** Purpose of first and most recent borrowing




**Base: Guarantor loan borrowers (126)**

'I could have decided not to take it and struggled but it was money and it was there'

**Male, 46, Sheffield**

### Choice of product

Guarantor loan customers chose to reborrow for a variety of reasons. Three key drivers were evident – believing it was the only option available to them (40%), speed and needing the money quickly (37%), and convenience (33%). The qualitative interviews highlighted that familiarity with the process was also a driver for some as it helped the process feel smoother and less onerous. Guarantor loan customers also said they appreciated the ease and convenience of topping up through an existing provider whether over the phone, online or using an app. Additionally, there was evidence of providers influencing borrowers' decisions to reborrow through communications prompting borrowers to top up, which is explored in more detail below.

### Consideration of alternatives

Nearly two thirds of guarantor loan customers said they considered other options before choosing this type of credit (61%). Those who considered other options were most likely to think about bank loans (51%), borrowing from friends and family (42%) or using their overdraft (21%), reflecting the more mainstream nature of this cohort's borrowing portfolio. This was echoed in the qualitative interviews, which showed that borrowers often aspired to use mainstream credit but were either unable to do so due to their poor credit history or were limited by the amount of available credit they had on their overdrafts and credit cards.

Those who did not consider other options (39%) said they couldn't think of an alternative (18%), know the type of borrowing works for them (16%), didn't think they would be accepted for other products (14%) or couldn't ask anyone to lend them money (14%). The qualitative interviews revealed that those who had been turned down for mainstream credit in the past were more likely to feel there were no other options available to them, and therefore did not investigate alternatives. Additionally, borrowers took confidence from knowing the process and how to manage their existing loan, which made them less likely to look for alternative ways of getting the money; their view was 'why change something that isn't broken

> 'They have never put me on the spot or make me feel like I have to say yes – it's 'there's the options, let us know'
>
> **Female, 37, Belfast**

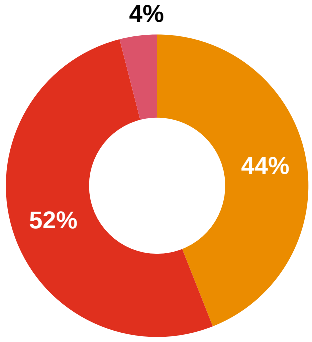
## Applying for reborrowing

### Provider influence

Just under half (44%) of customers stated that their provider initiated contact with them about reborrowing with the main channels being via text message, email or phone.

**Figure 37:** Communications

**Who made first contact to talk about getting additional credit?**




**Base: Guarantor loan reborrowers (126)**

**Communication received before most recent borrowing experience**

| | |
|---|---|
| **Text messages** | **69%** |
| **Emails** | **56%** |
| **Phone calls** | **40%** |
| Correspondence/letters | 18% |
| Pop up on website/app | 11% |
| Advertisements/offers on or through social media | 5% |

**Base: Guarantor loan reborrowers where provider initiated contact (55)**

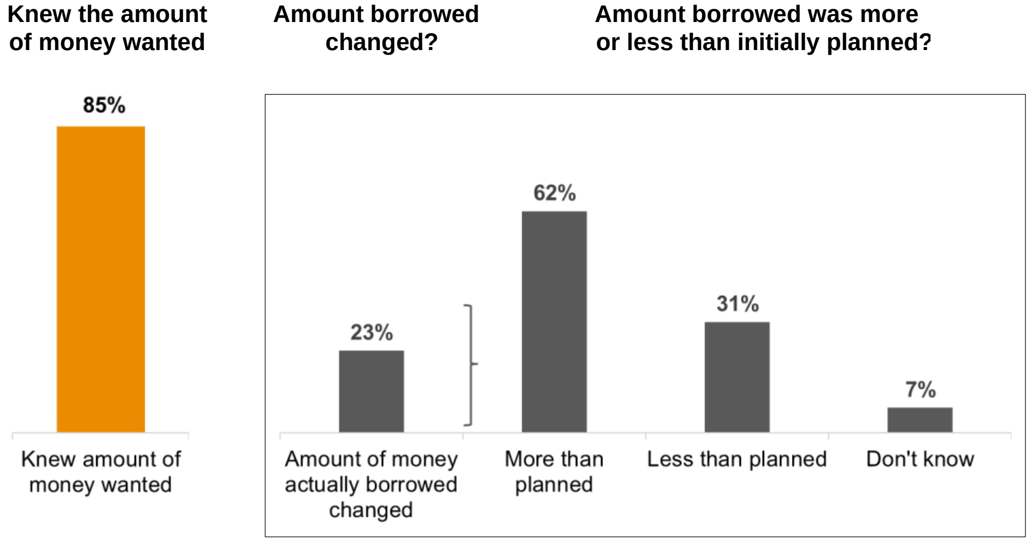
This was also seen in the qualitative research; some borrowers reported that they were made aware of the ability to top up by the provider when they took out the initial loan, and others explained how providers informed them of their eligibility to top up. In some cases, borrowers received several text messages within the space of a few days marketing top ups and telling them they had been preapproved for X amount of credit, which was tempting. Additionally, there were reports that the availability of top ups was given prominence on websites and apps. This made borrowers conscious of the ability to top up, even if they were not contacted directly by their provider. All these strands of provider activity seemed to be working together to make sure that borrowers were aware of their ability to top up, removing some barriers to accessing more credit by reassuring them that they have been preapproved. Even if borrowers didn't act on these reminders, the seed was planted and topping up became a possible option for them to use in the future.

> 'I had an email saying I was eligible for a top up, which is what put the thought into my head. You just had to reply to the email and then someone contacted me'
>
> **Female, 37, Belfast**

Qualitatively, borrowers described how they reborrowed online, or over the phone. Some preferred to apply online, and then be called up by the provider, but others completed the whole process over the phone.

Despite the majority (85%) knowing how much they wanted to borrow before contacting their provider, nearly a quarter (23%) borrowed a different amount of money than they originally intended after discussing it with their provider. Of those who did change the amount they borrowed 62% increased the amount once they were in contact with the lender.

**Figure 38:** Amount borrowed (% Agree)




**Base: Guarantor loan borrowers (126)**

**Small base size:** Guarantor loan reborrowers who said the amount money actually borrowed changed (29)

This was explored in the qualitative interviews, and although some participants did not report that the agents on the phone influenced how much their top ups were, there was some evidence of agents encouraging borrowers to top up more than they originally intended. It was reported that agents demonstrated 'salesy' behaviours, such as manipulating borrower's emotions. There were several examples of where borrowers increased the amount they wished to borrow after being told they had more credit available to them.

> 'They were so nice on the phone, she said to me 'I have a daughter your age, I want to help you out'
>
> **Female, 29, Cardiff**

> 'I'm not an expert in these things – and I don't want to be! And it's not my first language, so it can be confusing. Sometimes they give you the option to pay it over a couple of years, so the monthly amount is lower, so you think that you can afford it. But you don't realise that in the end, you are going to pay more. And I realised it after. Otherwise I would have gone for the minimum term.'
>
> **Male, 29, London**

### Reborrowing amounts

When making the decision over how much to borrow, the amount itself was borrowers' primary consideration; the need to borrow enough money to cover whatever expense had come up led to the decision to reborrow. However, most borrowers took the maximum amount they had been pre-approved for and then rationalised their need for it — once the sum was in their minds, they 'spent' the money in their heads, both necessary and lifestyle purchases. Borrowers also considered the monthly repayments, but often demonstrated confidence bias and didn't fully consider the impact of increased repayments on their situation, especially the potential for their income to decrease or encountering a large unplanned expense. The total cost of the loan was a lower priority; none could easily recall what the total amount to repay would be, and some did not recall being told by the agent. The immediate need for money took precedence over the potential long term consequences; borrowers did not feel they could afford to have a longer term view on their financial situation. Given this cohort's perception that they would never be debt free, it was felt that at the point of sale it was almost irrelevant what the total amount to repay was.

Despite a minority not recalling being told about the total amount they owed, it was felt that agents did a good job of explaining the different options available and the costs of each. However, there was low understanding of APRs among borrowers. There was a perception that lower was always better, regardless of the length of the agreement. Some felt that agents could do more to explain the total cost of the loan to borrowers, and the relationship between total cost, length of agreement and APR.

### Affordability checks

In the qualitative interviews, most borrowers reported that they went through the same affordability checks each time they borrow. There was evidence of one provider challenging a borrower about the information he had given about his rent and bills as it was lower than the national average. This made him reassess the figures he provided. As seen in the money diaries, borrowers' can underestimate their outgoings. All reported that they were required to submit bank statements to the provider, alongside payslips.

However, there were incidences where borrowers were deliberately not wholly truthful when completing the affordability checks. In these instances, borrowers were given the option to confirm whether their circumstances had changed, rather than go through the full checks. Borrowers told the provider that nothing had changed as a way to shortcut the lending process, rather than because they were worried about being declined, but this does highlight the potential for borrowers to get themselves into difficulty with unaffordable repayments. They also assumed that the affordability checks were personalised and thorough, and it was thought that if they were likely to struggle significantly with their repayments then this would be identified by the provider. Where borrowers do go on to struggle with repayments or express regret, they felt it was the lender's fault for not completing a thorough affordability check due to the behavioural biases at play at the point of purchase, including confidence and limited attention.

> 'For the top-ups and taking out the loan, I filled out the paperwork online and then they called me and my girlfriend. I think they were very, very careful. For example, they looked at all the expenses I had put down and then asked me questions about all of them, based on national average. They said that the rent payments I had listed were below the national average, so why was that, was I being honest. I said yes, it's lower because I live in a shared house. They asked me why my gas and electricity spend was lower than the national average, I said look I don't know, that's just what it is, maybe I am just more efficient. But they said I had to provide a bill statement, so I did.'
>
> **Male, 29, London**

### Involvement of the guarantor

With only one exception, all the guarantors were aware of the borrower's decision to top up. Like borrowers, guarantors tended to see the top ups as a small extension of the existing loan, rather than an entirely new agreement. Typically, they did not see it as their role to advise the borrower on what they should do; they trusted the borrower at face value that they needed the money. Guarantors were approached by the borrower who asked them about topping up and were then called by the provider to conduct affordability checks. Interestingly, borrowers had the perception that the affordability checks on guarantors were less stringent for top ups, but guarantors did not confirm this. Guarantors felt that the checks were comprehensive, and across different providers it was reported that they needed to not only provide information on their income and outgoings, but also proof of employment. Although it was perceived to be a small inconvenience, guarantors felt the checks demonstrated that the lenders were taking their role seriously, and lending responsibly. Additionally, there were examples of providers asking follow up questions to check the guarantor's understanding of the loan and following up with emails detailing the information given over the phone. This further reassured guarantors about the bona fide nature of the company.

There was one instance where the guarantor had limited knowledge of the borrower topping up and could not recall going through any additional affordability checks. After being challenged on this she responded that '[Borrower]' sorts all of that out' and did not recall the borrower taking out additional credit.

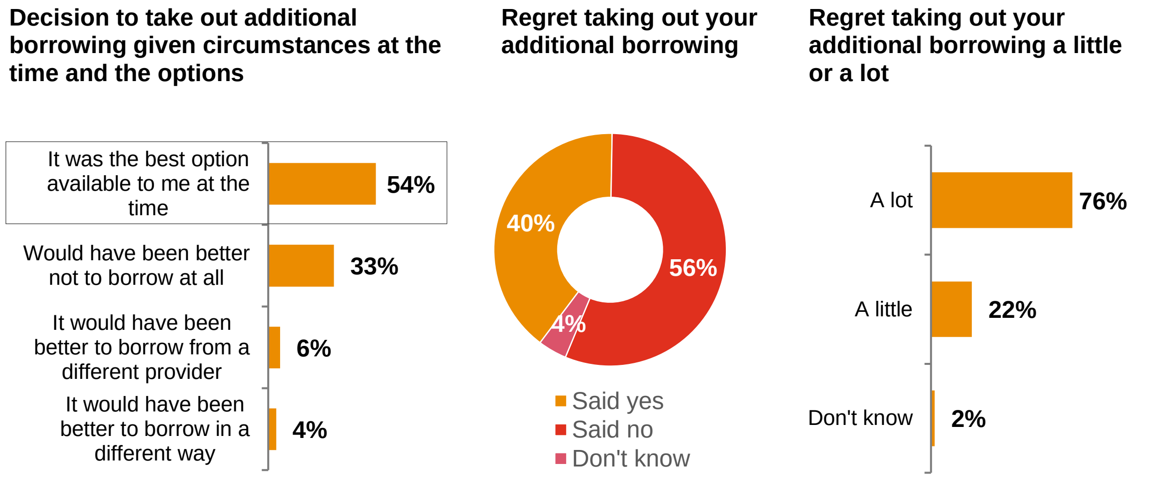
| | | |
|---|---|---|
| 'They're not just going to give loans willy nilly, so I assumed they were a decent company'<br>**Guarantor, Father in Law** | 'They were very good – not just, 'you're a guarantor, sign on the dotted line'<br>**Guarantor, Mum** | ''I don't think I had to do anything. I don't remember signing anything to be honest'<br>**Guarantor, Mum** |

## Feelings about the decision to reborrow

In the qualitative interviews, although borrowers regretted the financial situation they were in and the amount of interest they needed to pay, for the most part they did not regret their decision to take out the borrowing as they did not know what they could have done differently at the time. Additionally, this form of credit allowed them to have the lifestyle they wanted; for example taking holidays, getting new cars, and helping them feel more in control of their finances by paying off other debts. In some cases, borrowers saw the credit as a lifeline – without it they didn't see how they would have coped. In the quantitative survey over half felt that taking out additional borrowing using a guarantor loan was the best option available to them at the time. However, there was one borrower in the qualitative interviews who particularly regretted her top up (detailed in the case study as the end of this chapter) as she had topped up her loan much more than she had originally planned after speaking to the agent. As well as the regret she felt, it had also led to arguments with her partner.

In the quantitative survey two fifths (40%) said that they regretted taking out additional borrowing, with three quarters (76%) of those borrowers regretting their decision a lot. However, only a third (33%) felt it would be better to have not borrowed at all. The main reasons for regret echoed those heard in the qualitative research: high interest rates (82%) and the total amount to repay being too expensive (78%). It's interesting to note that although consideration of the total amount to repay was described as low at the point of purchase, it emerged as one of the main reasons for regret. Compared to other products included in this study a large proportion cited that their use of this product had an overall negative impact on their wellbeing (44%).

**Figure 39:** Was reborrowing in this way the best option?




**Base: Guarantor loan reborrowers (126)**

## Impact of reborrowing

As already discussed, in the qualitative interviews it was not always top of mind for borrowers how much their total borrowing with guarantor loans was, and as a result they were not always aware of how much their debt has increased by. Another factor influencing lack of awareness is the length of the agreements – often when topping up, borrowers had several years left of their original agreement, so making repayments for an extra few months was not perceived to make too much difference. However, upon reflection in the interviews, some did acknowledge that their use of guarantor loans has had a longer term impact on their financial situation. In particular, consumers thought about how much extra money they would have had if they weren't paying interest and making the repayments each month.

Some felt conflicted about their use of credit; although it had been a lifeline to them and helped them out, it had also been a source or stress and anxiety. The presence of the guarantor means there is strong motivation for borrowers to meet repayments. The knowledge that the loan will default to the guarantor means that payments are prioritised over other credit and spending commitments. Borrowers did not want to have to rely on their guarantor to pay their loan, and additionally for some, they wanted to keep the line of credit open. In the qualitative interviews, the presence of the guarantor was a cause of some anxiety as they had the additional emotional pressure of not wanting to let the guarantor down by missing a repayment.

Evidence of difficulty to repay emerged from the both the qualitative and quantitative research. Nearly half (46%) have had to cut back on spending to meet their repayments. Additionally, over a quarter (28%) had difficulty repaying, largely due to high repayments, money not being available on the day payments needs to be made and changes to their financial circumstances. This was also seen in the qualitative research, where

some found it difficult to make their repayments due to varying monthly incomes, unexpected expenses or a period where they have higher than usual outgoings (e.g. summer holidays, Christmas, a month with lots of birthdays in etc.). Additionally, many were juggling multiple credit commitments, often with different payment dates for each, which meant it was hard to keep track of what needed to be paid when and be able to manage their money so there was enough to cover everything. There were some instances where borrowers would take out additional credit in order to plug those gaps.

> ‘At the time it’s been great, because it’s helped me with the car, or the house, things I needed to sort. Longer term, it’s probably been worse for me, because I’m out so much money each month. I could be saving half of that money if I wasn’t paying a loan, but at the time – it’s had the effect that I needed at the time, but longer term it’s been harder.’
>
> **Female, 37, Belfast**

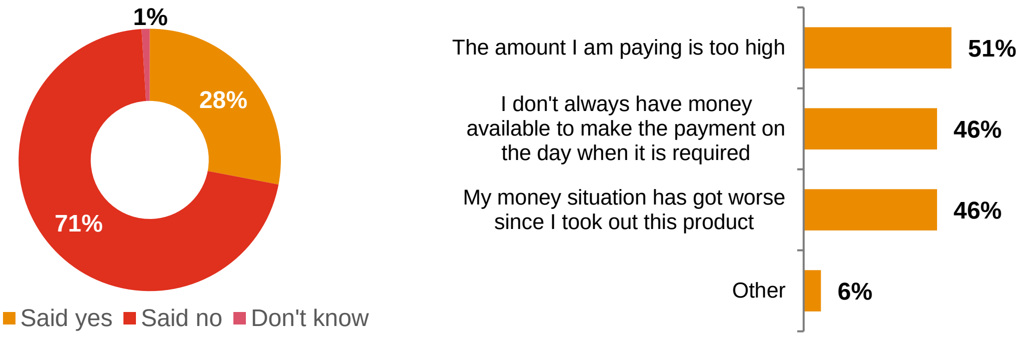
> ‘It’s one of the ones I have to pay. If I didn’t pay it, it would come straight out of my mum’s bank…. also, if I keep my payments up I’ll be able to have a loan later down the line… although I’m planning for this to be my last.’
>
> **Female, 37, Belfast**

> ‘I have a line of credit that I use if I need a bit of extra cash at the end of the month’
>
> **Male, 46, Sheffield**

**Figure 40:** Whether had difficulty repaying guarantor loan reborrowing

**Difficulty repaying**

**Difficulty repaying for any of the following reasons**




**Base: Guarantor loan reborrowers (126)**

**Small base size: Guarantor loan reborrowers who had difficulty repaying (35)**

Within the qualitative sample, there were few examples of where a borrower had missed a payment, but these were attributed to error, rather than struggling to make the repayment. In one instance, a borrower requested a new bank card so they were unable to make the payment. Instead, they transferred the money to their guarantor, who then made the repayment on their behalf. In another case, one borrower forgot to make a payment while he was away on holiday.

As mentioned earlier, of the 6 products looked at in this research, guarantor loans sat near the top in terms of the impact of repeated use on borrowers’ wellbeing. Approaching half (45%) had experienced further stress as a result of their financial situation. It’s worth bearing in mind however that guarantor loan customers tended to be managing a wide portfolio of credit products. In the qualitative interviews it emerged that it was their wider financial situation, and not just their guarantor loan that was causing this stress.

In terms of the impact on guarantors, although there was concern from some over what would happen if the borrower defaulted, this appeared from the qualitative interviews with them to be fairly low level, and not prompted by a specific event. There was one guarantor who had felt stressed when her son, the borrower, was unable to pay and she needed to step in to help him out. However, for the most part, guarantors had only agreed to be a guarantor if they felt the borrower would be able to repay the loan. Guarantors were reassured by the trust they had in the borrower and their employment status—although this was less reassuring if the borrower is working in an unstable job.

| | |
|---|---|
| 'I do think about it sometimes, but it doesn't play on my mind. I trust [daughter] and I know her and her partner have good jobs.'<br><br>**Guarantor, Father** | ''He came to us what with us being home owners and all. I weren't right happy about it. I was a bit afraid. If he doesn't pay it, we've got to stump up and that makes it a hard task when you've got your own bills to pay… fingers crossed he doesn't lose his job [as a delivery driver]'<br><br>**Guarantor, Father** |

## Summing up the impact of guarantor loan reborrowing

Relative to the other 6 high cost credit products included in this study, the indicators of harm were medium level for guarantor loans. Borrowers tended to have a wide portfolio of credit products, and some struggled to meet their multiple commitments. The added pressure of having a guarantor led to stress and anxiety for some who did not want to let their guarantor down. There was strong evidence to suggest that provider influence had played a role in reborrowing – through proactive communications and online/app messaging as well as the use of different sales tactics by agents.

**Fig 41:** Summary of impact of guarantor loan reborrowing

**Summary of perceptions**

| % believe | Guarantor loan |
|---|---|
| **Value of guarantor loan borrowing increased**<br>(since first guarantor loan with this provider) | 44% |
| **Another decision would have been better**<br>(not to borrow at all, borrow using a different product/provider) | 44% |
| **Regret reborrowing** | 40% |
| **Have had difficulty repaying guarantor loan** | 28% |
| **Had to cut back on spending**<br>(to meet guarantor loan repayments) | 46% |
| **Missed a non-guarantor payment in last six months**<br>(in order to make guarantor loan payments) | 28% |
| **Experienced anxiety and stress due to financial difficulties** | 45% |

High % compared to other High Cost products (red) · High % compared to other High Cost products but not the highest (amber) · Low % compared to other High Cost products (green)

**Base: guarantor loan reborrowers (126)**

## Guarantor loan stories

### 'Hannah', 29, had 3 guarantor loans

**Circumstances**

- Lives with her partner and 2 dogs in Wales. They share a rented house but have had to move to a new house a few times in the past year which she feels has damaged her credit score.
- Both her and her partner are employed and work in Cardiff. They are grateful to have good jobs, and they both receive bi-annual bonuses from their employer.
- Hannah got her first home collected credit loan when she was 16. The agent was collecting money from her mum and offered her £500 – she was about to go on holiday and thought the money would be useful.
- Since that day she described her borrowing as a downward spiral, and started to use many different types of credit, including payday loans, credit cards and overdrafts. By the time she started university, she owed over £1,000 to a home collected credit provider and was using payday loans to meet her repayments. At one point, she was running a business with her ex-partner and was using payday loans and home collected credit to buy stock.
- At the moment, her current borrowing is around £12,000. She has 9 different debts, she is seeking debt advice for 7 of the loans. She also has 2 guarantor loans. Her monthly debt repayments total £650.

**Guarantor loan journey**

- She first got a guarantor loan in 2018 for £2,500 to consolidate her other debts. She managed to pay off a lot of her debts, but not all.
- She then took out a second loan with another provider to pay back a friend, fund a holiday and pay off her payday loan debt.
- She then topped up her initial guarantor loan as she was concerned that she would not have enough money to meet her other credit commitments as she needed to take time off work due to anxiety.
- Hannah likes the staff she deals with over the phone and feels that they understand her and her situation. She feels that they work hard to be flexible and meet her needs.
- However, with her most recent loan, Hannah wanted to top up £500 to cover her missed wages, but ended up with £2,000 after the agent convinced her she might need more money 'just in case'.

**Impact of repeat guarantor loan borrowing**

- Her use of credit, particularly guarantor loans has impacted on her relationship with her partner and her father.
- She found approaching her father to be a guarantor awkward and it placed a strain on their relationship. She also worries that it puts her father at risk and is aware they could be taken to court for the money if she is unable to pay. This worry puts guarantor loan repayments almost on par with her rent as a priority.
- Debt is a source of friction between her and her partner.
- As a result of her most recent top up, her total amount of debt has increased a lot, meaning she will feel the burden of debt for a long time.

**‘Samuel’, 24, had 2 guarantor loans**

**Circumstances**

- Lives at home and currently works as a delivery driver.
- His income fluctuates depending on workload but is getting paid more/borrowing less since got this job. He usually brings home £400 a week but over Christmas it was triple that as it was a busy time.
- He is a self-confessed spender, even when he knows he doesn't have the money.
- Previously, he has used home collected credit but never paid it back as it was unsecured, he did not think he needed to pay it back.

**Guarantor loan journey**

- Samuel wanted a motorbike but didn't have a good enough credit score to take out a finance agreement without a guarantor. He initially took out £9,000 over 3 years, but intended to pay it back sooner.
- He then took out a loan to pay off his finance agreement as it was cheaper.
- Since then, his bike was stolen twice, and he has needed to take out further top ups to cover the costs of new bikes.
- Samuel appreciates how easy it is to top up, the reasonable repayments and does not feel that he has other options available to him to get the money
- His mum, the guarantor, however, does not recall Samuel topping up – she does not remember signing anything and is not aware he has taken out additional credit.

**Impact of repeat guarantor loan borrowing**

- Samuel enjoys the money guarantor loans has afforded him; he sees himself as 'living dangerously' but is happy.

# 7. Rent to own

## Overview of rent to own reborrowing

The research suggested that rent to own products were having a relatively low impact on consumers' financial lives and health. While there were examples of regret, difficulty making repayments and experiences of anxiety and stress, this was often in relation to their financial situation in its entirety. For the most part, customers saw rent to own as having a beneficial role to play in their lives:

- **Quality of life:** In some instances, rent to own products enabled customers to have the quality of life they desired – a quality of life that, due to their income levels, lack of savings and inability to access mainstream credit, they wouldn't have otherwise been able to achieve.
- **Life line:** In other instances, rent to own products were a lifeline to customers – giving them the essentials they need to live and to support their families at points in their lives when they'd needed the help the most.

| | |
|---|---|
| 'I didn't even look at the price or nothing, just thought, my son would love that.'<br><br>**Male, 50, Loughborough** | '[Provider] has helped a hell of a lot. If it wasn't for these companies, I don't know if I'd be where I am today. I wouldn't have been very good support for my daughter.'<br><br>**Female, 29, Rotherham** |

Despite this, just under a third (31%) said that they had had difficulty repaying their rent to own agreement and nearly three quarters (72%) had nothing saved for an unexpected cost, so they were potentially unable to effectively manage any major changes to their income or outgoings.

On top of this, the qualitative discussions revealed that while customers claimed to be driving the decision to reborrow themselves – in the quantitative survey 80% said they had approached their provider for additional borrowing – providers seemed to be having an impact on the reborrowing decision. The stock available, advertising and weekly repayments all appeared to have the potential to tempt customers and encourage reborrowing. Additionally, some customers described having strong relationships with staff and/or were receiving personalised calls/text messages promoting products and available credit.

| | |
|---|---|
| 'They've been there for me. They've helped me when I've been in hospital, they've been great. It's a loyalty thing.'<br><br>**Male, 47, Manchester** | 'I think I waited a bit [after receiving a text from provider] and then thought 'oh I can get that television, it's something different', then I went to check online.'<br><br>**Female, 53, Sheffield** |

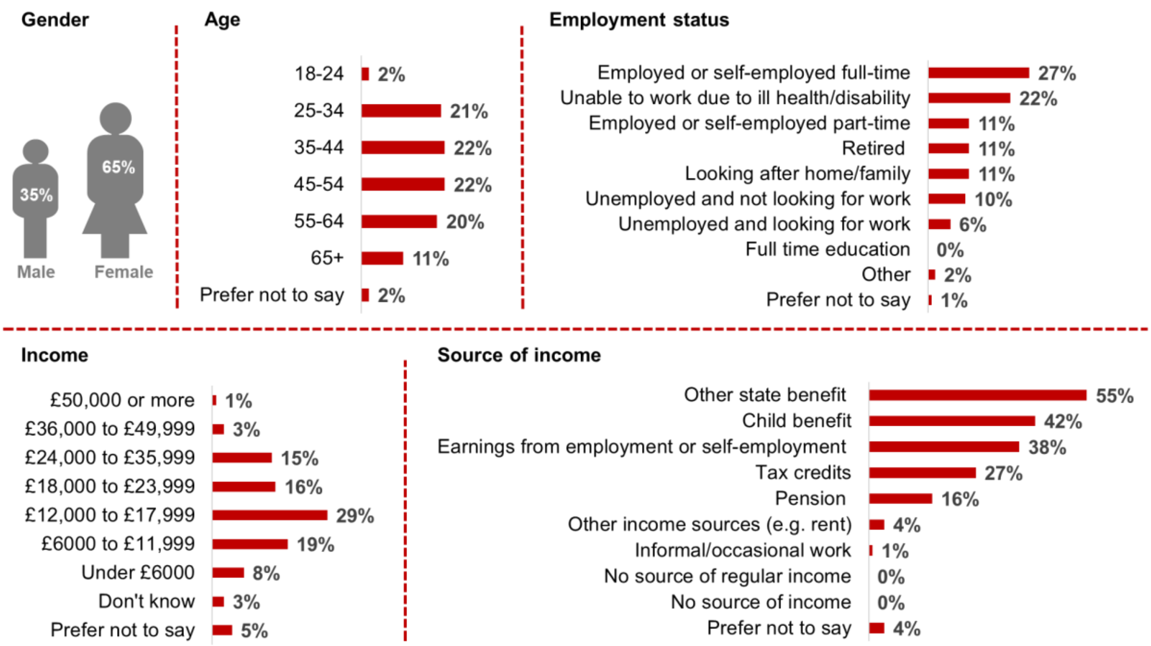
In addition, there was evidence of inconsistencies in affordability checks both across different providers but also from the same provider. In some instances, checks were felt by customers to be fairly stringent, with staff looking in detail at bank statements and querying purchases that could be considered 'non-essential'. However, in other instances, staff were simply checking if the customer's situation had changed; this was often the case where stronger relationships existed between customers and staff and/or where customers already had a line of credit open with the provider.

## Profile of rent to own reborrowers

### Demographic profiling

Rent to own customers were more likely to be female and in the middle age groups (35-54). Just over a third were working and most relied on benefits as their main source of income.

**Figure 42: Demographic profile of rent to own customers**




**Base: all RTO reborrowers (113)**

## Borrowing behaviour

Many rent to own customers were long term users of credit generally, with over half (54%) having used some form of credit for 6 years or more. As highlighted in figure 43 and through the money diaries, this borrowing had included a mix of both mainstream and high cost credit products – but at much lower levels than for reborrowers of the other products in this research. The most common product currently held by these customers was a credit card, with a third (30%) saying they had one. However, the qualitative interviews also identified a lot of current and past experience of other high cost credit products. While in the quantitative survey just 12% said they currently held a home collected credit loan, over a quarter (27%) had used this product in the past. There was a similar story for payday loans; just 5% said they currently held a payday loan but a quarter (25%) had used them in the past. This reflects the qualitative discussions, where it emerged that rent to own was often not the product customers began their credit journey with. For many, this product was considered at a point when customers felt they didn't have any other options. This was usually when they were experiencing financial difficulty, had maxed out or defaulted on other credit and believed as a result they would be unable to access mainstream credit. In the quantitative survey over half (53%) of the rent to own customers said they had a poor credit history.

**Figure 43:** Other credit products held

| | Currently hold | Previously had but no longer do |
|---|---|---|
| **Credit card** | 30% | 14% |
| Agreed overdraft | 14% | 14% |
| **Home collected credit** | 12% | 27% |
| **Personal loan** | 9% | 15% |
| Store card | 8% | 6% |
| Savings scheme | 7% | 5% |
| **Payday loan** | 5% | 25% |

| | Currently hold | Previously had but no longer do |
|---|---|---|
| **Guarantor loan** | 4% | 6% |
| **Unauthorised overdraft** | 4% | 5% |
| **Home secured loan** | 2% | 2% |
| **High cost personal loan** | 1% | 4% |
| **Logbook loan** | 0% | 4% |

**Base: all RTO reborrowers (113)**

The qualitative interviews revealed 2 different types of rent to own customer:

- **Necessity purchasers:** Those who use rent to own in order to survive
- **Quality of life purchasers:** Those who use rent to own to achieve a higher quality of life

**Necessity purchasers** were often in a desperate situation, for example setting up their home after a relationship breakdown and needing to replace a core item such as a washing machine. For these individuals, rent to own was viewed as a lifeline when they felt they had no other option.

**Quality of life purchasers** tended to be more affluent, with more disposable income. While some admitted they could have sometimes saved up for purchases, they tended to use rent to own to get what they wanted more quickly.

There was some fluidity between these 2 customer types; some customers had started out as necessity purchasers but then carried on using rent to own once their circumstances had improved.

As we come on to see in the section on the decision to borrow below, there are a number of behavioural biases at play when looking at customers' decisions to reborrow:

- Short term thinking (a focus on weekly repayments rather than the total amount repayable).
- Optimism (an assumption that their financial situation will be the same or better in the future, not planning for any financial difficulties) and;
- Framing (seeing the amount being borrowed in isolation from their wider credit portfolio, helping it feel more affordable).

Because of this, customers were taking out multiple agreements concurrently, rather than waiting to pay off an agreement before starting a new one. With regard to their most recent purchase, well over half in the quantitative survey (60%) already had an agreement running with the same provider. However, there were limits to how many agreements customers took out. Sometimes this was applied by the provider but the qualitative research also showed that some customers were setting themselves limits.

'I know how much I can afford each week, so I won't take out more than that.'

**Male, 50, Loughborough**

'With [provider], you can have an item but then you can't add anything on for another 8 weeks, so you can't get 2 items out at the same time.'

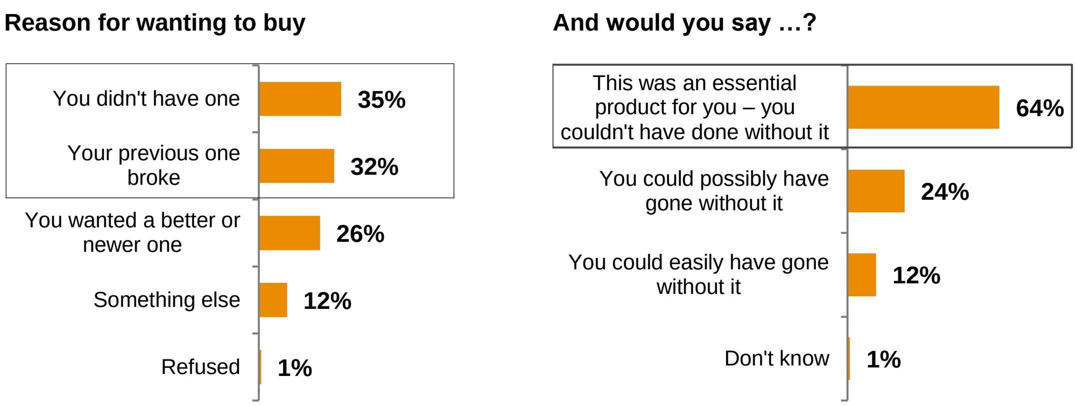
**Female, 29, Huddersfield**

## Decision to reborrow

### Purpose of reborrowing

When considering their most recent purchase, nearly two thirds (64%) of customers said it was an essential purchase; something they couldn't have done without. As illustrated in figure 44, across the whole sample, reasons for this varied between needing one because they didn't have one, wanting a better/newer one or because their previous product had stopped working.

**Figure 44:** Purpose of RTO purchase




**Base: all RTO reborrowers (113)**

However, the qualitative research revealed that 'essential' meant different things to different people. Across the interviews there was a difference observed in customer attitudes towards their use of rent to own products that often linked to what type of spenders they were. This can be demonstrated with the following spectrum:

**Spectrum of spending behaviour**


Those more restrained with their spending were often more 'necessity purchasers' e.g. to replace an essential item or to set up a new home. They often had limited income and did not have access to mainstream credit. Rent to own for these customers was more about surviving.

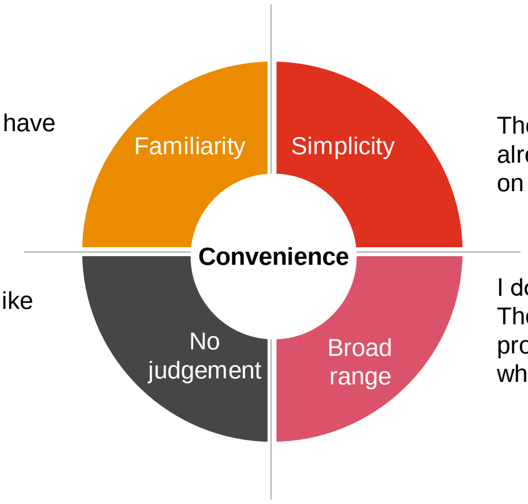
> 'It was like tunnel vision. I didn't even look at the price or nothing, just thought, my son would love that.'
>
> **Male, 50, Loughborough**

There were also those in the qualitative research who were less restrained with their spending. In some cases, they had well paid jobs. Poor financial management in the past and present and/or a drop in their income levels had led to a situation where they could no longer access mainstream credit but continued to want a lifestyle they couldn't achieve without credit or without saving. These individuals sometimes described their purchase as being 'essential' where other people might have seen it as a 'quality of life' or aspirational purchase.

## Decision to choose rent to own

In qualitative discussions, the main reason given for choosing rent to own rather than another form of credit was that it was considered to be their only option. Many felt they had exhausted other options, either maxing out credit cards and overdrafts and/or defaulting on repayments, leaving them with a poor credit score. For others, their income levels meant they couldn't access mainstream credit. As highlighted earlier in this report, many knew what their credit score was, knew it was low and therefore believed they had limited options. This was validated by the quantitative survey where half (50%) of those surveyed gave 'this was the only option for me' as one of their reasons.

The other factor that played a large role in customers' decision to use rent to own was the convenience of this option. Nearly 6 in 10 (57%) claimed this was one of the reasons they chose this way of funding their purchase. This came through strongly in the qualitative research as well, although it was clear that 'convenience' was not simply about ease of access. 'Convenience' was made up of a number of variables, some of which were more emotional than rational:




While not considered a key driver to choosing rent to own, the qualitative interviews were able to dig deeper, uncovering the importance of provider relationships – either with the company or with staff. Knowing a company or individual, knowing how the process works and what they as customers need to do was seen to be providing reassurance. This was further supported by the fact that they had successfully borrowed from the company in the past. The warmth of the relationship and the confidence they would be accepted was having a subconscious impact on the decision to reborrow. In some respects, the strength of relationship was similar to that seen in the interviews with home collected credit customers.

Another reason given for using rent to own was the ability to give the product back. In the qualitative interviews some customers – usually those who were borrowing to survive – liked the fact they were not locked into an agreement as they would have been with other loans. Not all of the customers in the qualitative research mentioned this, so it is not possible to determine whether or the ability to give products back was known by all.

In the qualitative discussions customers often mentioned the store environment or the website; the way products and prices were displayed appeared to be impacting on their decision to reborrow making items seem more affordable and created a feeling of this being a sensible choice, encouraging reborrowing. Some – usually those who had said they found it hard to limit their spending – mentioned finding this very tempting.

### Consideration of other options

Rent to own customers on the whole felt they had no other options available to them. In the qualitative interviews they described having tried to borrow from other lenders in the past, but they had either been declined, 'stung' or had defaulted on payments so now discounted these as potential options. This was reflected in the quantitative survey, with three quarters (74%) saying they did not consider any other options for getting the money they borrowed. The main reasons given for this were not being able to think of alternative options available to them or of anyone to ask for help, and familiarity with this way of borrowing/with the provider.

Customers also recognised that rent to own offered a benefit over other forms of credit. While they acknowledged it as a more expensive way of paying for an item, most knew they were not tied in and could always return the item if they were unable to repay. For a couple of borrowers, product replacement and support was also a driver. One customer had had multiple white goods repaired or replaced when they broke down and saw this as a huge benefit that he really valued. Some also referred to providers only lending to them if they could afford it, giving examples of providers restricting how many agreements they could hold at one time. These restrictions gave customers reassurance that they wouldn't get into financial difficulty.

| | |
|---|---|
| 'I've never had a credit card and I don't want one.'<br><br>**Female, 43, Harrow** | 'I can't use payday loans. I still owe £600. I'm just ignoring it<br><br>**Female, 29, Huddersfield** |

## Applying for reborrowing

### Affordability checks

The qualitative discussions revealed some customer perceptions of inconsistencies around affordability checks that were carried out. In some instances, full affordability checks were carried out when initially borrowing and when reborrowing. It often involved providing ID and copies of bank statements. Further questioning around affordability sometimes took place, including probing around more discretionary spend. There were some perceptions that there had been a change in how detailed the affordability checks are now.

Others reported examples of less stringent affordability checks being done at the point of reborrowing. Often this related to customers having very recently taken out an earlier agreement; they were asked if their circumstances were still the same. Other customers reported having experienced more lenient checks further down the line i.e. towards the end of an existing agreement or a significant time after the last agreement had ended.

‘The application form takes ages now. I’m assuming that’s because they’ve done something wrong, lent to the wrong people and now they need to show they’re doing it right.’

**Male, 50, Loughborough**

‘I’d finished paying off the washing machine ages ago then I got this text about a TV. I spoke to them on the phone, but I don’t think they did a proper check on me. They can’t have done because I blatantly couldn’t afford it.’

**Female, 53, Sheffield**

One participant recounted how she’d decided to reduce her payments towards the end of the term in order to stretch out the agreement. It was her belief that she wouldn’t be required to do the full affordability check again if she had an existing agreement and, in this way, could keep open a ‘line of credit’.

‘I dragged it out. I made the payments as minimal as possible. I didn’t need anything at the time, but I did want the account open. I didn’t want to start from scratch, that’s awkward.’

**Female, 29, Rotherham**

### Purchasing insurances

There was evidence in some of the qualitative interviews that the insurances offered by rent to own providers were encouraging customers to choose this form of credit over others. Several viewed the insurances as very comprehensive. In addition, some did not have home contents insurance – preferring instead to pay for the add-on insurance for each individual item as they perceived this to be cheaper and had peace of mind that they had the important items covered.

‘They replace it, no quibbles. I’ve had that TV replaced 3 times because my son (who has autism) has thrown the remote at it when he doesn’t like something. They just swapped it.’

**Female, 28, Grantham**

‘[The insurance] is one of the reasons why I go to [provider]. Then I know it’s covered. If it breaks, they’ll replace it straight away.’

**Female, 29, Huddersfield**

### Impact of provider on reborrowing decision

The majority of customers (80%) claimed their decision to reborrow was their own, and that they had approached the provider rather than the provider approaching them. However, there was evidence in both the qualitative interviews and the subsequent quantitative survey of a lot of conversations taking place with providers in the lead up to a reborrowing decision, largely because many had existing agreements running with their providers.

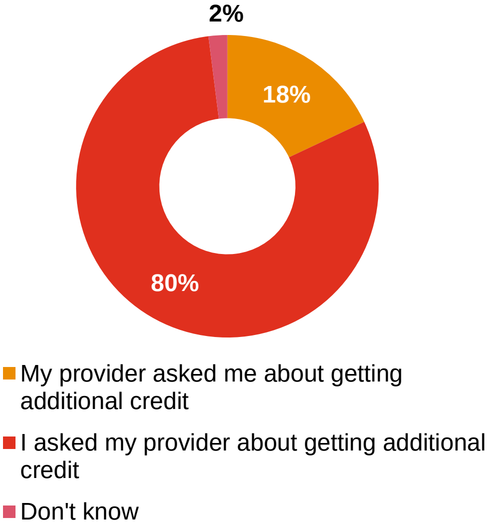
This was supported by the qualitative interviews, where many reported having strong relationships with staff and regular conversations about their eligibility for more credit. In one instance, a staff member told the customer that they had £5,000 credit available for him. While this didn’t always immediately result in reborrowing, it created the possibility of reborrowing in customers’ minds, arguably encouraging them to consider this as an option when they otherwise might not have.

Another route being used by providers to highlight eligibility for reborrowing was text messages and emails although this was less common. There were examples in the qualitative interviews of customers acting as a result of receiving a communication.

| | |
|---|---|
| 'I got a text from them about TVs so thought I'd have a look online. I ended up getting one… getting a TV wasn't on my mind at all before that.' **Female, 53, Sheffield** | 'I get calls and texts all the time from them telling me I'm eligible for this and that.' **Female, 43, London** |

**Figure 45:** Communications

**Who made first contact to talk about getting additional credit?**




**Base: Base: RTO reborrowers (113)**

**Communication received before most recent borrowing experience**

| | |
|---|---|
| **Phone calls** | **60%** |
| **Face to face discussions – Outside your home** | **35%** |
| Correspondence/letters | 20% |
| Text messages | 20% |
| Emails | 20% |
| Advertisements/offers on or through social media | 15% |
| Pop up in website or app | 5% |

**Small base size: RTO reborrowers where provider initiated contact (20)**

## Reborrowing amounts

In terms of the amount customers planned to spend on their item, this tended to be quite clear in their minds before they contacted their provider. Around two thirds (65%) said they knew the amount they wanted to spend.

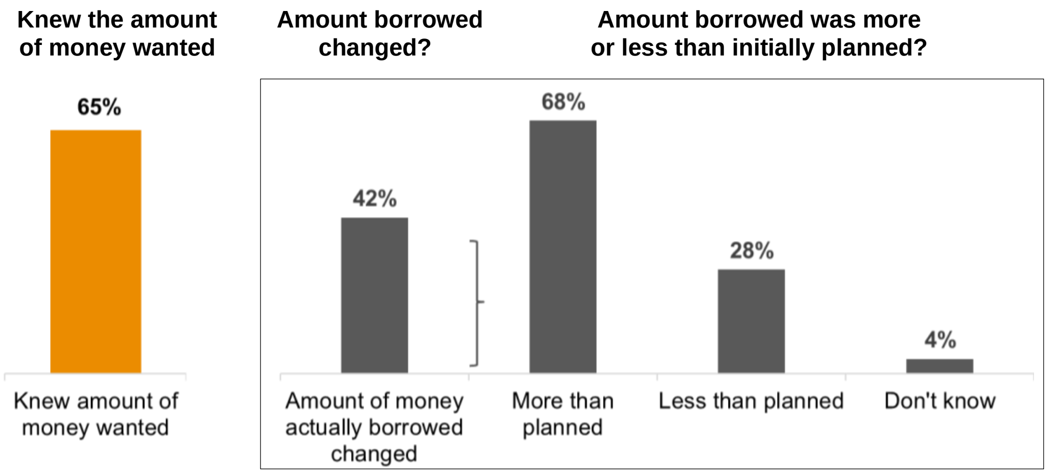
However, the qualitative research revealed how the stock/website presentation and conversations with staff had had an impact on how much customers ended up spending. The messaging was described as focussing on affordability and accessibility.

'They phoned me up and said we've not got that one anymore. I'd set my mind on having a TV so I agreed to something I couldn't afford.'

**Female, 53, Sheffield**

As a result, despite being sure about what they want to spend, 42% changed the amount after they started looking at the products available and speaking to staff. Of these, over two thirds (68%) increased the amount they had planned to spend.

**Figure 46**: Amount reborrowed (% Agree)




**Base: RTO reborrowers (113)**

**Small base size:** RTO reborrowers who said the amount of money actually borrowed changed (47)

In the qualitative interviews, changing the amount seemed more prevalent among those who struggle to control their spending. However, customers who were more controlled with their spending showed signs that they could be encouraged to spend more when, for example, they could see the benefits of a better model.

## Feelings about the decision to reborrow

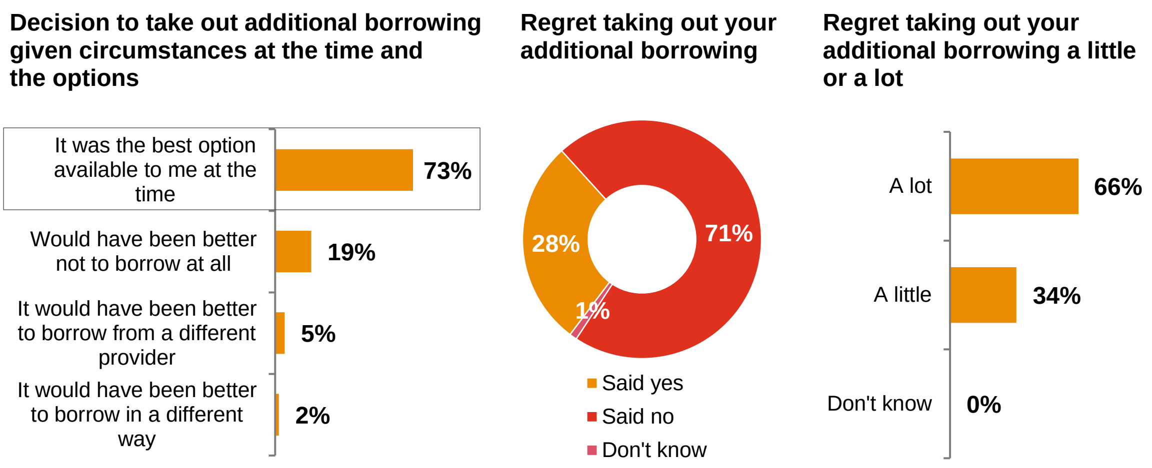
In comparison to the other high cost credit products covered in this research, rent to own had a relatively low level of regret, with just over a quarter (28%) saying they regretted taking out additional borrowing. Of these people, two thirds (66%) said they regretted it a lot. This reflected the qualitative interviews where there was some evidence of regret but often related to the overall financial situation customers were in, not just their rent to own borrowing. Customers recognised that rent to own was not the cheapest form of credit, and there were a number of instances where they stated dissatisfaction with the amount they were paying back in total, the interest rate and late payment fees. However, this was balanced against being grateful for this line of credit when they had limited alternative options. In the quantitative survey nearly three quarters (73%) said it was the best option available to them at the time.

In the quantitative interviews most said they deliberately avoided looking at the total amount repayable as they had no other option. In one instance, a participant realised part way through the agreement how much he had paid for a TV but blamed this on his decision to take the 3 year rather than the 1 year agreement option. In addition, he justified his purchase of the TV by claiming it was still in use in his son's bedroom, 3 years later.

| | |
|---|---|
| 'Knowing I paid that much for the TV, I feel really, really upset. But what makes me feel better is that 3 years later that TV is still working in my son's bedroom.'<br><br>**Male, 50, Loughborough** | 'The interest breaks your heart when you look at the overall cost that you've paid but I've had good experiences with [provider] – they provide a helpful service for people who can't afford items at the upfront cost.'<br><br>**Female, 43, Harrow** |

Those who were less restrained with their spending admitted to finding it hard to break the habit. However, across all rent to own customers in the qualitative interviews there was a general consensus that this credit wasn't causing them significant harm. While they would prefer to have access to cheaper credit, there was generally warmth towards their providers, as they had either been a life line, or a source of credit allowing them to achieve the lifestyle they wanted.

**Figure 47:** Was reborrowing in this way the best option?




**Base: RTO reborrowers (113)**

## Impact of reborrowing

On the whole, there did not appear to be a significant impact on the financial wellbeing of rent to own reborrowers, especially in contrast to some of the other high cost credit products in this research. Most felt they had their reborrowing under control. In situations when they had struggled e.g. loss of income or an unexpected expense, they had either returned the item or spoken to the provider to agree a solution.

This was supported by the quantitative survey where just under a third (31%) indicated they had had difficulty meeting payments on their rent to own agreement mainly because either their money situation had got worse since taking out the product (54%) or they hadn't had the money on the day the repayment was required (40%). Just over a third (35%) said they had had to cut back on their spending in order to make the repayments. Few have a buffer to cover unexpected costs or a loss in income – just over a quarter (28%) have something saved to cover situations like this.

Consequently, there didn't appear to be a significant impact on other aspects of their life, including their mental health.

The quantitative survey echoed these findings with around a third (34%) indicating they had experienced anxiety and stress in the last few weeks as a result of their financial difficulties. There was less evidence of other indicators of harm such as relationship problems (13%), problems with friends or family members (4%) or problems at work (4%).

## Summing up the impact of rent to own reborrowing

Rent to own customers reported low levels of harm compared to 5 of the other 6 high cost credit products included in this study. Only home collected credit scored lower and the products have some of the same characteristics:

- Flexibility in repayments
- Relationships with staff who know about and are accepting of their situation
- Affordable weekly payments

These characteristics were felt to be helping customers manage their financial situation. Despite the high levels of interest being paid, this did not appear to be having a significant impact on their wellbeing. Customers were aware that rent to own products were not as cheap as mainstream forms of credit but were for the most part accepting of this as they saw it as their only choice if they wanted or needed the items. The research revealed damaging cycles of reborrowing for those who struggled to control their spending. For these individuals, there was more danger of getting themselves into financial difficulties if they experienced a loss of income or an unexpected cost, given that most did not have a buffer.

The chart below from the quantitative survey shows the summary of customers' perceptions of the impact of their reborrowing. It relates specifically to their rent to own reborrowing but is also associated with the high levels of other credit products held, both main stream and high cost borrowing.

**Fig 48:** Summary of impact of rent to own reborrowing

**Summary of perceptions**

| % believe | RTO |
|---|---|
| **Value of RTO borrowing increased** (since first RTO with this provider) | 30% |
| **Another decision would have been better** (not to borrow at all, borrow using a different product/provider) | 26% |
| **Regret reborrowing** | 28% |
| **Have had difficulty repaying RTO** | 31% |
| **Had to cut back on spending** (to meet RTO repayments) | 35% |
| **Missed a non-RTO payment in last six months** (in order to make RTO payments) | 24% |
| **Experienced anxiety and stress due to financial difficulties** | 34% |

**Around a third have had difficulty repaying their rent to own agreements and have had to cut back on their spending, with just over a quarter who regret reborrowing at all**

High % compared to other High Cost products

High % compared to other High Cost products but not the highest

Low % compared to other High Cost products

**Base: RTO reborrowers (113)**

## Rent to own stories

### 'Rachel', 29, 3 current rent to own agreements

**Circumstances**

- Rachel got into financial difficulty. Her partner encouraged her to take out credit cards, an overdraft, home collected credit and rent to own products and in some cases took these out in her name without her realising, or took her debit/credit card and withdrew money without her knowledge

**Rent to own journey**

- Rachel had used her RTO provider in the past when her partner wanted a 55" TV.
- After moving to Scotland, she spoke with her RTO provider. She explained her situation and believes staff did everything they could to get her set up in her flat as quickly as possible.
- Since this first experience, Rachel remains loyal to her RTO provider as they were there for her when she needed it. Despite her poor credit history, they gave her a chance and she has showed them she can pay her agreements back.
- She currently has agreements out on a bed, dryer and a fridge freezer, paying £83pcm. She feels that all of these were necessity purchases, and this is how she uses her RTO provider. If she can't afford something, she would rather struggle without.

**Impact of repeat rent to own borrowing**

- Without her RTO provider's help, Rachel says she wouldn't have survived and that they gave her what she needed.
- She is aware that total amount repayable is high and believes it doesn't help her credit score, but she knows she doesn't have a choice.
- She believes they don't do affordability checks if customers have an account open, so she deliberately stretches out the agreement as she's worried that, because her circumstances have changed (she is now on benefits), she won't pass the checks.

# 8. Home collected credit

## Overview of home collected credit reborrowing

Of the 6 high cost credit products focused on in this research, home collected credit appeared to be having the lowest level of impact in terms of customers' reborrowing behaviour. One in 5 said they regretted having taken out additional borrowing and a similar number said they had had difficulties repaying their loans. While the qualitative interviews also uncovered some regret, the strength of the relationships between customers and agents, and the flexibility around paying on time and amounts payable each week stood out. This meant that the impact of reborrowing on customers' day to day lives was low relative to that seen with some of the other products. The habitual nature of home collected credit use and a strong focus on weekly repayments suggested that little thought was given to the overall cost of each loan or the longer term cost of repeat borrowing. While some recognised they were in a cycle that was difficult to break, they also felt grateful that they could get more money if they needed it. This sense of gratitude was commonly expressed but could sometimes feel a little misplaced as it appeared to have the potential to drive more borrowing.

> 'You can't get out of it – that's why I've been doing it for 20 years. They get you to pay an extra £2 a week before Christmas and then you don't have to worry because you know you'll get an extra £500 loan.'
>
> **Female, 57, Chesterfield**

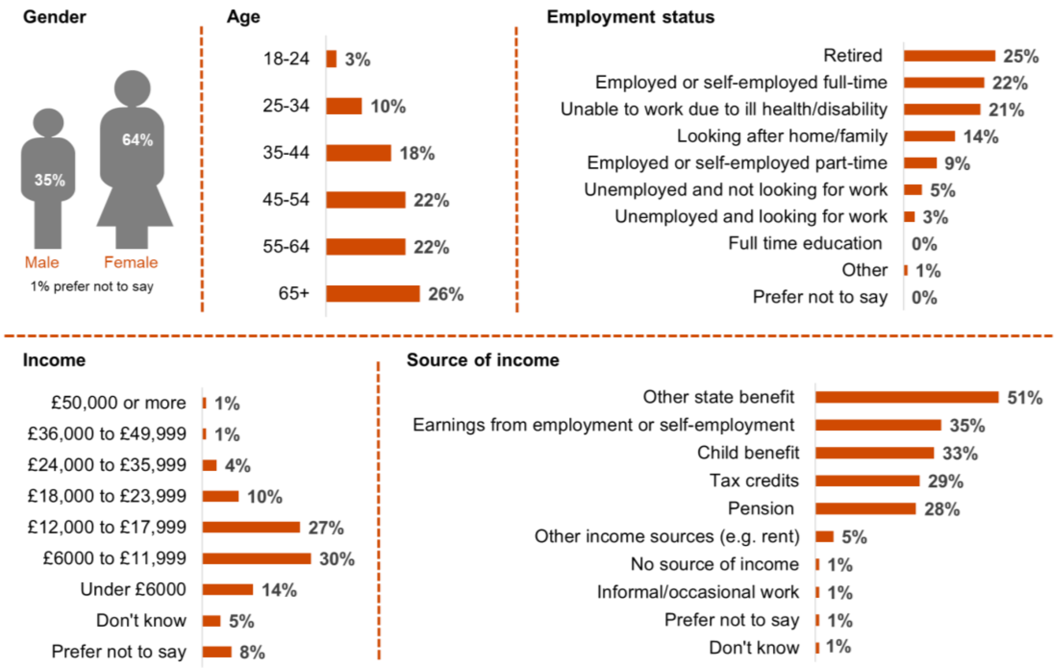
Being able to borrow more when needed featured heavily in the qualitative interviews, providing a level of reassurance for customers. Some of the longer term users of home collected credit had recognised a reduction in marketing messages and there were few references to agents being 'pushy', although receiving a letter, email or text at or towards the end of a loan was common and one customer had received a post it note message telling her she could get a new loan in 3 weeks and another at Christmas. In the quantitative research three quarters of those we surveyed said that they had initiated the process of reborrowing themselves, while face to face discussion dominated as a means of receiving information, followed by texts, letters and phone calls.

## Profile of home collected credit reborrowers

### Demographic profiling

The home collected credit customers in this research were more likely to be female, over 55 and have an annual income of less than £12,000. Less than a third of those in the quantitative survey were in employment and half were reliant on benefits.

**Figure 49:** Demographic profile of home collected credit reborrowers




**Base: Home collected credit reborrowers (156)**

Given the older profile of home collected credit customers, a quarter of those in the survey had started using credit more than 10 years ago. A third had been using home collected credit for 3-5 years while 14% had been using it for 6-10 years and 12% for more than 10 years. Some of the customers in the qualitative research had been using home collected credit for over twenty years. Both the length of customer/provider relationships and the personal nature of this type of borrowing meant that home collected credit was very much part of these customers' financial lives and reborrowing a well-established pattern of behaviour. Compared to some of the other customers included in this research, home collected credit reborrowers' borrowing portfolio included relatively fewer mainstream products. Just over a quarter had a credit card, and less than 1 in 5 an agreed overdraft.

**Figure 50:** Other credit products held

| | |
|---|---|
| **Credit card** | 28% |
| **Agreed overdraft** | 17% |
| **Savings scheme** | 8% |
| **Rent to Own** | 7% |
| **Store card** | 7% |
| **Payday loan** | 6% |
| **Personal loan** | 6% |
| **High cost personal loan** | 6% |
| **Unauthorised overdraft** | 4% |
| **Guarantor loan** | 1% |
| **Home secured loan** | 1% |

**Base: Home collected credit reborrowers (156)**

Some of the home collected credit customers in the qualitative research had been using this form of credit for so long they couldn't accurately remember when they started. One customer now in his late sixties had started using home collected credit after he was forced to give up work following a major heart attack at 45.

| | |
|---|---|
| 'My son introduced me [to the agent]'<br><br>**Female, 57, Chesterfield** | 'My job wasn't paying enough, and a friend introduced me to her [home collected credit] agent'<br><br>**Female, 54, London** |

As a long distance lorry driver no longer able to drive, he had lost his livelihood overnight. He and his wife also sold their home and moved into social housing where they still live. His wife subsequently became too ill to work and is now registered disabled, further squeezing the family finances. At the time the customer became ill there were 2 providers very local to where he lived and lots of the families they knew used them, so it was a natural place to turn. They still have a home collected loan with one of those providers, plus loans with 2 other home collected credit providers. Another customer, aged 32, had first started using high cost credit when her 2 children were very small, she was living on benefits and having previously been used to a salary couldn't make ends meet. She started with payday loans, then tried using credit cards to rebuild her credit rating but both went 'so wrong' she ended up in a worse situation and turned to a local home collected credit provider. This was a pattern that that was evident across the qualitative interviews: a negative income shock or other change in circumstances created stress, anxiety and financial pressure and customers had turned to home collected credit because it was known in their community, often people knew either an agent or someone borrowing from them, and most had been referred by a friend or family member. There were also examples of customers who had started borrowing at a young age, less out of necessity, more because home collected credit was on their radar and borrowing allowed them to have things they couldn't otherwise afford. Customers described how once they had started borrowing it soon became a habit as they found it convenient, valued using a known provider and could get the money quickly. Paying weekly – with some flexibility when they were short – also made repaying easier. Other than adding new providers and having loans running with more than one agent, there was little evidence of choosing a particular provider over another, as this was often driven by knowing which providers their friends or relatives were using. Most had stable repayments which also led to a sense of being easier to budget for and feel in control of. Equally, there was little to no evidence in the qualitative interviews of customers shopping around. While most were paying weekly face to face, some had started paying over the phone or by direct debit, seeing their agent only when taking out a new loan.

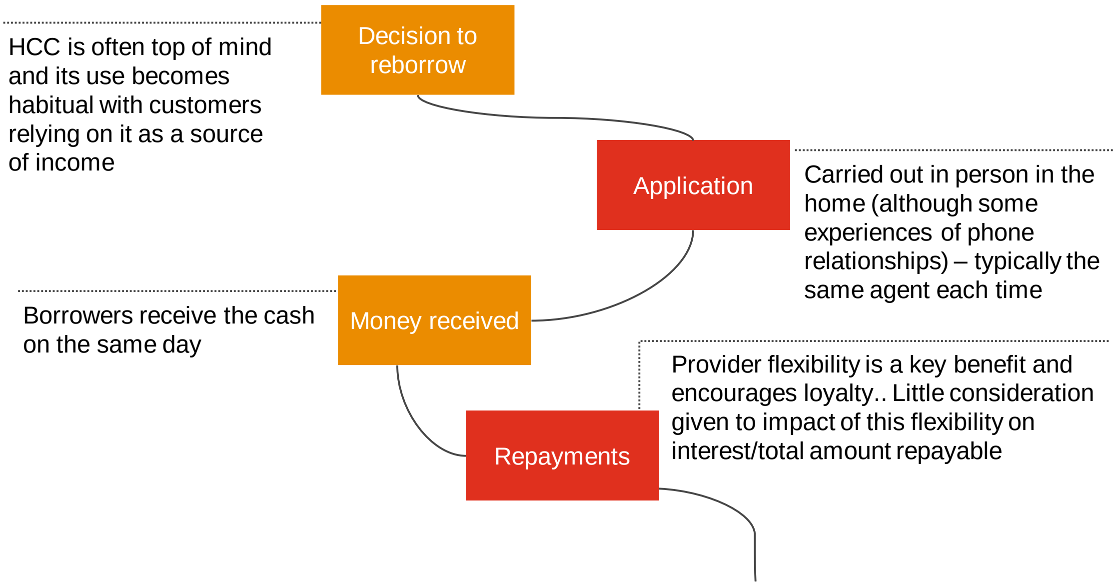
> 'My mother had a couple of doorstep loans and the agent in question knew me. When I was old enough, he asked do I want a loan? I was about to go to Magaluf with my friends at the time… My eyes just lit up'
>
> **Female, 29, Cardiff**

This was echoed in the quantitative survey where convenience was the most common reason given for choosing home collected credit (41%), closely followed by a provider they had borrowed from before (35%) and recommendation from friends or family (32%).

> 'If they know you, you can get the money on the same day without any problems'
>
> **Female, 54, London**

## The purchase process

Of all the products looked at in the research, home collected credit emerged as having the simplest process.




The habitual nature of customers' borrowing behaviour meant there was little evidence of a deliberate decision to borrow as customers became reliant on home collected credit to supplement their income. This was further underpinned by the convenience of applying in home – or completing in home if starting the application over the phone – receiving the loan in cash on the spot and having flexibility on repayments when needed. All of these fostered a sense of loyalty and gratitude towards the provider. As a result, little if any consideration seemed to be given to the impact of the borrowing/flexibility around repayments on the interest being paid or the total amount repayable. This meant that customers were not thinking about whether they might get a better deal elsewhere.

This established, largely habitual/automatic pattern of borrowing and reborrowing was borne out in the quantitative research, where 62% of those surveyed had had between 2 and 9 loans from the same home collected credit provider in the past 5 years and almost a third (30%) had had between 10 and 29. While the value of the most recent home collected credit loan was under £300 for 20% of customers, nearly a third (30%) had borrowed between £500 and £999 and a further 15% had borrowed £1,000 or more.

**Figure 51:** Number of home collected credit loans held with most recent provider in the last 5 years and value of most recent loan

| Number of loans | | Value of most recent loan | |
|---|---|---|---|
| **2 – 5** | 40% | **Up to £300** | 40% |
| **6 – 9** | 22% | **£300 – £499** | 15% |
| **10 – 19** | 23% | **£500 – £699** | 17% |
| **20 – 29** | 7% | **£700 – £999** | 13% |
| **30+** | 8% | **£1000+** | 15% |

**Base: Home collected credit reborrowers (156)**

## Decision to reborrow

### Purpose of borrowing

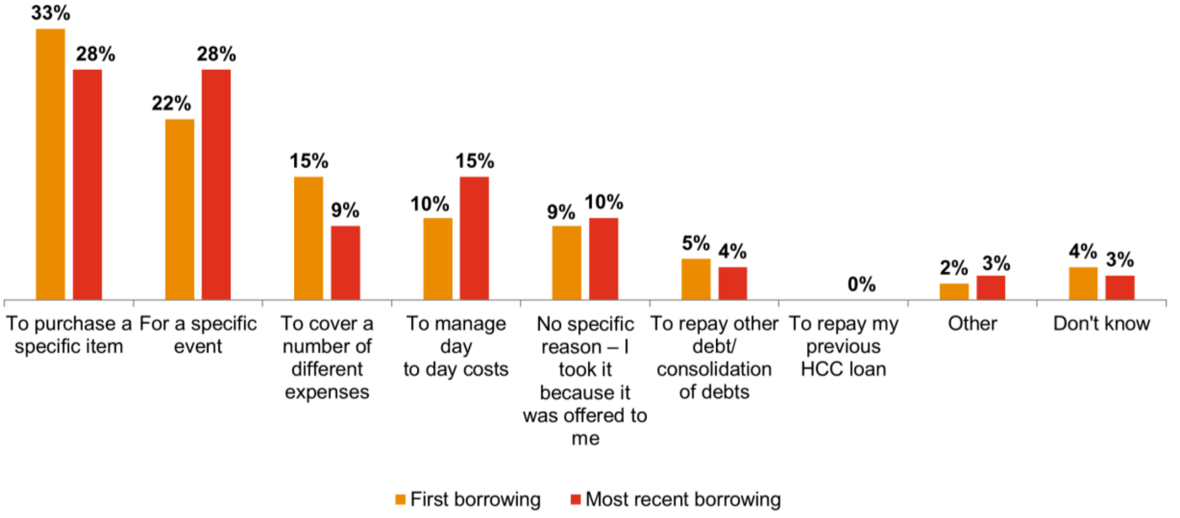
As discussed earlier, many of the home collected credit customers in this research had been using this form of borrowing for a long time; 60% of those in the quantitative research had been with the provider of their most recent loan for 3 years or more. We know also from the qualitative interviews that some customers had previously used different providers and had either switched to a new one or added new ones to their repertoire of home collected credit providers. It was clear from their stories and the qualitative money diaries that they had been reborrowing since early on in each relationship; either topping up/extending an existing loan or taking out a new loan concurrently. This borrowing behaviour was supported by the table above showing the extent of borrowing from the same provider over the past 5 years.

The volume and frequency of borrowing backs up the descriptions in the qualitative research that suggested that there was rarely a deliberate decision to reborrow unless triggered by a specific event or unexpected expense, but rather a perception of home collected borrowing as an ongoing, available line of credit. That being said, for some, getting close to the end of a loan – or at least a good way through it – triggered thoughts of the next loan, and most of the customers in the qualitative research were receiving communications from their agent or provider either as they approached the end of a loan or when it was settled.

When it came to the reasons for first taking out home collected credit, customers were less likely than those using other high cost credit products to say it was for repaying other debts or consolidating debt. Over half said they had taken their first home collected credit to buy a specific item or fund specific event, while nearly 1 in 10 said they took it because it was offered. Reasons for subsequent borrowing followed a similar pattern although cited a specific event or to manage day to day costs. Again, 1 in 10 said took subsequent loans because they were offered.

| | | |
|---|---|---|
| 'As soon as I finish, I know I will get a letter and that's the temptation'<br><br>**Female, 54, London** | 'I could use that extra money [once a loan finishes] to get another loan.'<br><br>**Female, 57, Chesterfield** | 'Money's always been tight. Our son got into trouble and we've borrowed a few times to help him out'<br><br>**Male, 67, Belfast** |

**Figure 52:** Purpose of first and most recent borrowing




**Base: Home collected credit reborrowers (156)**

### Choice of product

As seen earlier, most of the home collected credit customers in this research had had several loans with the same provider over the last few years. In the qualitative interviews most had more than one home collected credit agreement running at the time of the field work and one customer had 7 outstanding home collected loans – 3 with one provider and 4 with another. As already discussed, reasons for choosing to borrow in this way are widely and consistently cited: convenience, knowing the provider and speed of receiving the money. It could be argued that in the same way as the qualitative interviews uncovered little evidence of a deliberate decision to reborrow or of shopping around, the strength and duration of the customer/provider relationships also meant that product choice was automatic or habitual.

### Consideration of alternatives

It was very clear from the qualitative interviews that very few if any alternatives to home collected credit were being considered. Compared to users of other products in the research, fewer home collected credit customers had mainstream credit relationships to call on and the process of reborrowing with their agent so entrenched, easy and familiar that alternatives were often just not on the radar. In the quantitative survey, three quarters of home collected credit reborrowers said they hadn't considered other options. Borrowing the way they had previously was an important factor in this with over a third saying they hadn't considered other options because they knew home collected credit worked for them. Of the small number that had considered alternatives, the main options mentioned were borrowing from friends or family, selling something or getting a bank loan. From the qualitative interviews, none of these options appeared to have been feasible; most were confident that mainstream credit wasn't an option and they either didn't have friends or family in a position to lend to them or were not comfortable asking. Further evidence of the automatic nature of reborrowing with home collected credit came when we asked people in the survey whether they had ever considered not going ahead with the borrowing; 69% said they had not.

| | |
|---|---|
| 'I know I can't get serious finance because of my poor credit history'<br><br>**Female, 57, Chesterfield** | 'There's always someone to talk to or who will get back to you, and they're usually local. It's more relaxed'<br><br>**Female, 27, Grantham** |

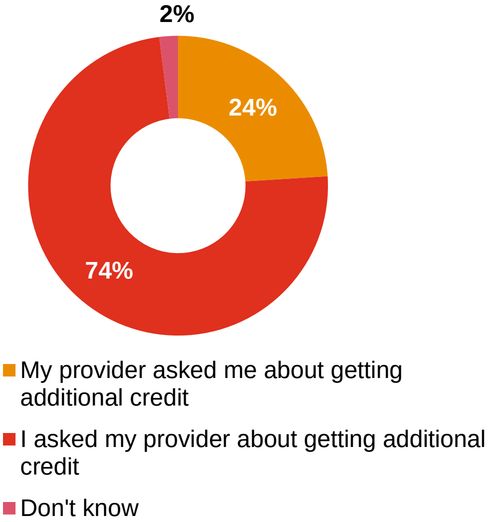
## Applying for reborrowing

### Contact with provider

In the quantitative survey, almost three quarters (74%) of home collected credit customers said they had initiated contact about reborrowing, and a quarter (24%) said the provider had approached them. From the qualitative interviews however, this point was less clear. While several felt they were driving their reborrowing, the ongoing, personal nature of the relationship meant that there was more of a continual dialogue than with other products in this research. This coupled with the descriptions of their reborrowing seeming almost organic made it more difficult to identify one party driving behaviour more than another. All were aware that they could reborrow, some knew this before reaching the end of existing agreements and others very soon after paying them off. Across all 6 there was very little evidence of any prolonged breaks between their loans.

**Figure 53:** Communications

**Who made first contact to talk about getting additional credit?**




**Base: Home collected credit reborrowers (156)**

**Communication received before most recent borrowing experience**

| | |
|---|---|
| **Face to face discussions – In your home** | **46%** |
| **Text messages** | **35%** |
| **Correspondence/letters** | **30%** |
| Face to face discussions – Outside your home | 27% |
| Phone calls | 24% |
| Advertisements/offers on or through social media | 5% |
| Emails | 3% |

**Small base size: Home collected credit reborrowers where provider initiated contact (37)**

### Reborrowing amounts

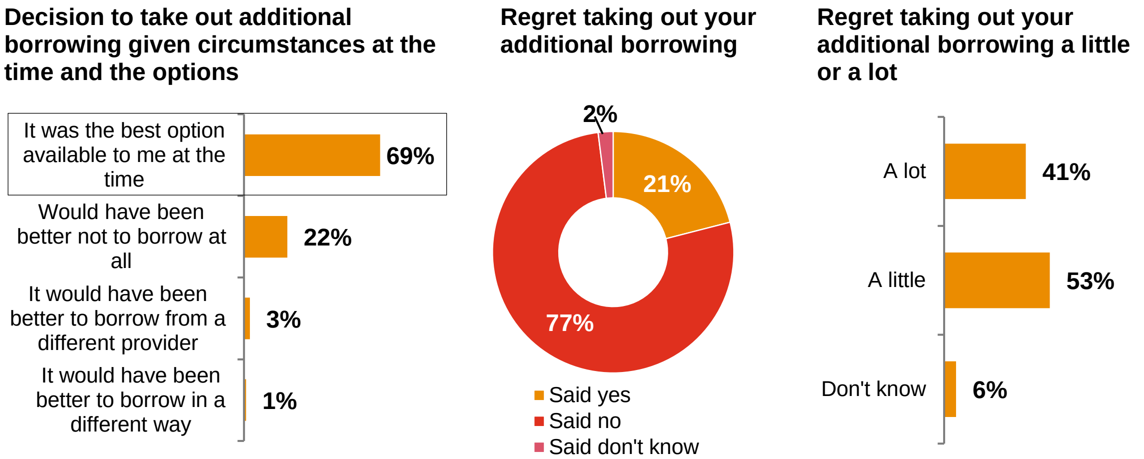
In the qualitative interviews, there was a mix of customers who tended to take out a similar amount each time and others whose loan amount had increased over the years. From the money diaries, the amounts that had been borrowed in recent years spanned £400-£1,000, although many said that their first home collected loans were around £100-£200, suggesting the amounts had generally increased. As already discussed, there was often a specific need driving the borrowing, so customers recalled having had a good idea of how much they wanted to borrow. There were some references to the amounts actually borrowed being adjusted, for example depending on the affordability check or whether or not they were renewing an existing loan. In the first case they might have borrowed less than intended, in the second more. Notably, when talking about their borrowing there was usually more focus on the weekly repayments than on the amount being borrowed or the amount to be repaid. In the quantitative survey 9 out of 10 said they knew how much they wanted to reborrow. A quarter (26%) of these said that the amount changed between asking for the loan and taking it out. In the qualitative interviews, there were some examples of customers being able to borrow more than they had thought; when this happened, the larger amount was usually taken. Most customers described the affordability checks that were done as feeling like a formality; there were no suggestions of affordability having ever been a major issue. Some suggested that the checks felt a bit more formal than when they had started borrowing, and one customer felt that her preferred provider – she had 2 and had used others in the past – was more stringent than others she had used, and this reassured her.

> 'It was all way above board. Normally they come in, you sign for your loan and away they go but they [preferred provider] really make you responsible because they don't just give you money. One of the companies I got in trouble with, you could get a new loan every week. I got to the point where I had to pay £90 a week – I could never afford that!'
>
> **Female, 57, Chesterfield**

## Feelings about the decision to reborrow and the impact of reborrowing

Levels of regret among home collected credit reborrowers was low compared to customers using other products, with just 1 in 5 saying in the quantitative survey that they regretted taking out more borrowing. Of these, the main reasons for their regret were the high interest rates and the total amount to be repaid.

**Figure 54:** Was reborrowing in this way the best option?




**Base: Home collected credit reborrowers (156)**

In the qualitative interviews there was very little evidence of customers knowing what interest rate they were paying and most admitted they hadn't really thought about the total amount they had to repay at the time or since. Some described how completing the money diaries and taking part in the research had made them realise how much they must have spent on their loans over the years, but there was no sense that they would or could have done anything differently. One reason for these relatively low levels of regret seem to be that customers were on the whole able to keep up with their repayments and when they were in difficulty their agent could offer them flexibility. The net effect of this was that the reborrowing had a relatively low impact on customers day to day and most thought they would borrow again.

> 'I hate myself. But I also think I will do it again. I'm going home in September and thinking of stuff to take back. I can get some quick money to do this and pay back later.'
>
> **Female, 54, London**

In the quantitative survey, just over 1 in 5 (22%) had had difficulty keeping up their repayments, while the same proportion said they had had to cut back on spending in order to make their repayments. In the qualitative interviews this was reflected as cutting back on treats and shopping around for food and other goods, with no examples of people missing payments on other bills to keep up their home collected credit payments. This was echoed in the survey where 1 in 10 had missed a payment on a utility bill and 78% had not missed any non-home collected credit payments. These figures were the most positive across the 6 products included in the research.

## Summing up the impact of home collected credit reborrowing

Home collected credit customers had the lowest indicators of harm of the 6 high cost credit products covered in the study. In the qualitative interviews, while some customers had had feelings of embarrassment, guilt and stress caused by their repeat borrowing at points in their borrowing history, the way they described them suggested these feelings were not as strong as those described by customers using other products. The amounts they borrowed tended not to vary too much from one loan to another, and while their overall borrowing had increased, repaying weekly seemed to have made keeping on top of their debt more manageable. This was supported in the quantitative survey where over 1 in 5 (22%) of home collected credit repeat borrowers said they had experienced anxiety and stress in the past few weeks as a result of their financial difficulties and 1 in 10 said they had felt embarrassed.

The chart below from the quantitative survey shows the summary of customers' perceptions of the impact of their reborrowing. It relates specifically to their home collected credit reborrowing but is also associated with the high levels of other credit products held – whether current or historical.

**Figure 54:** Summary of impact of home collected credit reborrowing

**Summary of perceptions**

| % believe | Home collected credit |
|---|---|
| **Value of Home collected credit borrowing increased** (since first HCC with this provider) | 34% |
| **Another decision would have been better** (not to borrow at all, borrow using a different product/provider) | 27% |
| **Regret reborrowing** | 21% |
| **Have had difficulty repaying Home collected credit** | 22% |
| **Had to cut back on spending** (to meet HCC repayments) | 21% |
| **Missed a non-HCC payment in last six months** (in order to make HCC payments) | 21% |
| **Experienced anxiety and stress due to financial difficulties** | 22% |

**All 7 indicators of harm were lower for home collected credit than other products in the research**

**The qualitative research suggested strong relationships between agents/provider and customers and high levels of trust**

**While one in 5 (21%) said they had had to cut back on spending to keep up with their repayments, nearly four fifths (78%) said they had not missed paying other commitments to do so**

High % compared to other High Cost products

High % compared to other High Cost products but not the highest

Low % compared to other High Cost products

**Base: Home collected credit reborrowers (156)**

> 'They are sensible, you've got to wait until you've paid at least half of the amount before you can renew it and they constantly check on your expenditure to make sure you can afford to get a new one.'
>
> **Female, 57, Chesterfield**

## Home collected credit stories

### 'Deborah', 57, has been using home collected credit for well over 20 years

**Circumstances**

- Deborah was medically discharged from the Army and is unable to work. She receives a war pension and gets by but never has any spare money as a lot goes on repayments and bills.
- She has grown up children and school age grandchildren who she helps care for.
- She currently has 13 debts across different providers which include credit card debt, home collected credit, catalogues and retail credit. She pays £1 per month on each loan.
- She has always used home collected credit, mainly renewing/topping up over a c.25 year period.

**Home collected credit journey**

- Deborah has always used 'doorstep loans'
- Her first home collected credit was a £100 loan 25 years ago; she used the same provider 'constantly' until about 5 years ago.
- She was then introduced to another provider after the agent dropped a leaflet through her door and she started getting loans from them; other providers continue to leaflet her.
- She does receive marketing and has responded to an email from her main home collected credit provider telling her she could have another loan.
- She borrows because while she can afford what she needs, she can't get everything she wants.

**Impact of repeat home collected credit borrowing**

- She sees her reborrowing as a habit and a way to get what she wants quickly.
- She doesn't think she'll be able to get out of the cycle – she's always going to need more money – but she does plan to pay off all her borrowing except for her main home collected credit provider and just borrow from them in future.
- She doesn't feel her reborrowing has an a particularly negative impact on her health but admits to feeling stressed when she's reflected on how much interest she's paid.

**'It's so easy to get into and then you think – oh my god I've got to pay all that back'**

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