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Consumer Credit Research:

Low Income Consumers

RESEARCH REPORT

Commissioned by:

The Financial Conduct Authority

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Executive Summary

The Financial Conduct Authority (FCA) came into existence in April 2013 as a successor to the Financial Services Authority. It is an independent non-governmental body that regulates the financial services industry in the UK. The key aim of the FCA is to ensure that financial markets work well and that consumers get a fair deal. The FCA has three statutory objectives:

- To protect consumers
- To enhance the integrity of the UK financial system
- To help maintain competitive markets and promote effective competition in the interests of consumers

In January 2014, 33 in-depth, in-home interviews were conducted across England, Scotland, Wales and Northern Ireland. The sample structure defined 'low income' consumers as those within the bottom 10-15% of income brackets (approx. £145 - £461 weekly depending on status and number of dependants) of the general population. Recruitment screening questions were also used to ensure that everyone in the sample had some experience of consumer credit, and that a range of views regarding access to credit and levels of comfort with credit were represented. The overarching aim of the research was to explore the attitudes, needs and behaviours of very low income consumers towards credit. Additionally the research sought to uncover any issues or concerns caused by over-indebtedness.

Key Findings

No single journey into debt or over-indebtedness

The research confirmed that there is no single journey into borrowing or over borrowing, but rather a collection of different journeys that depend on a range of variables prevailing at any given time. These include income, life events, financial confidence and experience, and the presence or lack of support networks. The data revealed three 'borrowing typologies' or states that consumers found themselves in and moved in and out of over time. The three states are Survival, Lifestyle and Reluctant.

Current economic conditions squeezing budgets and impacting on priorities

Many in the research were living on reduced income as a result of the prevailing economic landscape, with high levels of unemployment, low job security, unstable working hours and benefit cuts. Just two of the 33 participants had any level of savings, and all were prioritising housing, heating and food over other expenditure. Increases to the cost of living meant that very little or no money was left over to manage debt or save.

Financial confidence and experience
The research showed that while both confidence managing money and experience with financial products are needed, the extent to which consumers have both can be variable. Some were very confident managing money day to day but had relatively low levels of experience with different financial products. Others, particularly those who had experienced a significant reduction in income as a result of a negative life event such as redundancy or relationship breakdown, had wider financial experience, but less confidence managing money.

Banks/credit card companies generally perceived more negatively than other lenders
Across the sample there was a perception of the balance of power resting with the lender rather than the borrower; many participants felt they had little control over what they could borrow and no bargaining power. Banks and other 'mainstream' lenders were generally viewed as formal, impersonal and inflexible, while other lenders, home credit providers in particular, were commonly described as friendly, approachable, flexible and non-judgmental. Examples were given of being 'let off' one or two missed payments, coming in for a cup of tea and not making customers feel bad for needing to borrow. At the same time, some reporting having felt pressured to take out more loans, sometimes before an existing loan had finished. The perceived pressure came in varied forms; visits, phone calls, letters and SMS messages.

Limited evidence of assessing cost of credit options
The research showed that most participants were not assessing their borrowing options based on the total cost of borrowing. Being approved for credit and affordability of the repayments were given higher priority, as well as – to a less extent – flexibility and control. Because of this, very little assessment was done. Other barriers included it simply not being on the radar, there being little perceived value/little to gain, a perception that lenders hold all the cards and a lack of knowledge of how to shop around/what to compare. Additionally, in many cases credit had been sold rather than bought; credit was taken because it was offered rather than having been sought out.

Fragmented borrowing and over-indebtedness
The research identified fragmented borrowing as a key contributing factor to borrowing too much. Many of the participants in the research had acquired multiple relatively small 'pots' of credit that individually were manageable but collectively resulted in unsustainable levels of repayment. Additionally, some of the pots were not necessarily seen as borrowing; common examples of these would be catalogues and BNPL deals. The key consequences of this situation were that the consumers had no real visibility of their total indebtedness and no compelling reason not to take on more credit. Equally, lenders had no visibility of an applicant's total existing commitments.

Several strategies for coping with over-indebtedness
Strategies for coping ranged from making minimum or missing payments, juggling between creditors, borrowing from friends and family if feasible, and ignoring contact from lenders/ debt collectors/bailiffs to ignoring the problem completely, seeking advice and in extreme cases agreeing to have property repossessed.

Negative consequences of over-indebtedness/poor credit choices rarely recognised until after the event

The research uncovered examples of financial loss and emotional distress caused by over-indebtedness. That said it was evident that some financial loss may have been incurred but had not recognised by the consumers. Very few participants in the research demonstrated an understanding of any link between missing/minimum payments and paying more interest. Where there was a better understanding of how credit products worked and what the implications of different actions might be, this was generally amongst consumers who had been in difficulty, sought help and/or been forced to examine their borrowing more closely.

Ideas put forward to help consumers avoid unmanageable debt focused on making it more difficult to borrow

Suggestions put forward included stricter credit checks, a focus on ability to repay, no instant loans, a curb on lenders approaching customers to take a loan, and a need to ensure all borrowing costs are fully understood at point of sale. Participants also felt that the FCA could look at setting a universal cap on interest rates for borrowing. Most did not know what the cap should be but a few suggested a maximum of 20%-2% across all types of borrowing.

Conclusions

The research showed that in many respects the needs, attitudes and behaviours of very low income consumers are similar to those across the population as a whole. The key difference is that those on lower incomes as less able to turn their borrowing situation around, especially if they become over-indebted. While many appear to be *'just about managing'* day to day, they are particularly vulnerable to any negative changes in circumstances such as further loss or reduction in income or change in household composition. Financial loss, either in terms of paying too much interest or incurring more interest as a result of prepayment behaviours, is rarely recognised by those borrowing unless or until a problem forces them to look at their borrowing more closely.

1 Background

The Financial Conduct Authority (FCA) regulates the financial services industry in the UK. Since its inception as successor to the Financial Services Authority (FSA) and with greater powers than the FSA, the FCA's overarching goal is to ensure that the financial markets work well and facilitate a fair deal for consumers. As such, it has three core statutory objectives:

- Protecting consumers
- Ensuring stability and integrity within the industry
- Promoting healthy competition between providers

Historically, responsibility for the regulation of the consumer credit market has rested with the Office of Fair Trading (OFT). As part of its initiative to bring the regulation of all aspects of UK financial services together under a single regulator, responsibility for consumer credit will transfer from the OFT to the FCA on 1st April 2014.

In the run up to the transfer, the FCA has been consulting widely to inform the development of its proposed regime. An interim regime will be in place from 1st April 2014, to allow providers time to adjust to the new system and to reduce the regulatory burden on them during the transition.

1.1 Purpose of the report

This report details the findings from a qualitative research study amongst indebted consumers living in low income households. The report examines the role that credit plays in these individuals' lives and identifies where any key themes or differences exist.

2 Research objectives

2.1 Objectives

The aim of this strand of research was to gain a **deeper understanding of the issues, needs, concerns and opinions** of consumers who are potentially vulnerable to negative consequences when using consumer credit.

Broadly, the research needed to:

- Explore consumer use of different credit products and services
- Evaluate the relative perceived value and benefit of different credit products and services (and why)
- Identify any credit products that could lead to negative consequences (and how)
- Assess the impact of different credit products on money and debt management (amongst the over indebted)
- Understand the journey to over indebtedness and the role (if any) that different credit products can play in this
- Uncover examples of, and potential for negative consequences in relation to the use of credit
- Evaluate behaviour and attitudes to the choice and use of different credit products
- Understand consumers' experiences in terms of provider communications and actions

In addition, the research needed to contribute towards the FCA's overarching objectives to protect consumers and promote market competition. As such, various types of negative consequences, such as financial loss or emotional distress were of interest and are covered in this report.

2.2 Key themes

Underpinning the objectives of the research there were a number of themes to explore:

- Access to credit – any evidence that individuals' credit history might have been impacted as a result of using any particular form of credit
- Access to information, with any evidence of:
    - Unclear communications leading to consumer misunderstanding and confusion around what the right product is for their needs
    - Confusion regarding credit ratings and their impact on access to credit
- Access to advice – any indication of consumers:
    - Not knowing where to turn for help with debt issues
    - Not seeking professional help or seeking advice from family/friends
- Communications and marketing activity – any evidence of misunderstanding around their borrowing options and how interest and charges are calculated

- Consumer attitudes and behaviour – any evidence of this leading to over-indebtedness, unsuitable borrowing or poor product choice
- Consumer detriment (negative consequences) – any evidence to suggest consumers are not aware of having been miss-sold a product, or failing to complain after becoming aware
- Lender behaviour – any evidence from a consumer perspective of how lenders' behaviour impacts on consumer credit choice and behaviour
- Life events – the influence of life events on borrowing and repayment behaviour
- Product complexity – any evidence of product design/pricing structure leading to financial loss or other negative consequence
- Regulation – any sense providers are not helping consumers to understand the implications of their credit choices and behaviour

3 Methodology

3.1 Sample and Recruitment criteria

3.1.1 Recruitment criteria

The key focus for the recruitment was to ensure **those whose household income fell in the lowest 10-15% of the UK population** and who have had or currently have experience with credit. Credit experience was one of the key selection criteria for recruitment. Every respondent **currently had or used to have at least one credit product**. The recency of debt problems fell out naturally, with some **struggling with debts** at the time of the research and others having **used debt advice or debt management services** in the past. A series of questions was also asked at the recruitment stage to ensure a mix of **attitudes about access to credit** (i.e. how easy or difficult they felt it was to access credit) and a mix of **statements relating to levels of comfort with individual current levels of indebtedness were obtained.**

In order to ensure coverage of different perspectives, the research aimed for a spread of demographics (see Technical Appendix for further details).

3.1.2 Sample size and nature

The sample structure was designed to explore the views of low income consumers across a range of locations in the UK in January 2014.

Given the exploratory nature of the objectives, a qualitative approach was used for this research. Qualitative methods allow researchers to explore participants' attitudes, behaviours and experiences in depth, thereby allowing for the fullest possible understanding of how credit fits into people's lives and what, if any, detriment (financial or emotional) has been experienced.

A depth interview approach was selected as this provides the ideal forum for respondents to open up and share their credit life histories without feeling judged. These interviews took place in the respondents' homes to ensure maximum comfort and privacy levels for those taking part. The other advantage to conducting the research in-home was the opportunity to gather additional contextual information about the consumers' lives and circumstances. The interviews lasted 75-90 minutes and 33 interviews were conducted in total, across the UK (see fig 1).

3.1.3 Fieldwork locations

Interviews were conducted across 6 locations in the UK. The figure below details the number of interviews carried out in each location.

Fig 1. – Number of interviews in each location across the UK

3.1.4 Indicators of financial vulnerability

One aim of the research was to understand the relationship between vulnerability and indebtedness. Several different examples of vulnerability were uncovered and taken into account in analysing the findings of the research. Please see the Technical Appendix for the indicators of vulnerability in this sample.

4 Main Findings

4.1 Consumer journey

This research showed that there is no single journey into debt or over-indebtedness, but rather a collection of different journeys depending on a range of variables such as income, life events, financial capability and support networks. Analysis of the data enabled us to identify three 'borrowing typologies' or states that consumers found themselves in and moved in and out of over time. These, and the typical journeys observed within these, are discussed in detail in section 4.4.

4.2 Consumer experience

4.2.1 Contextual overview

A recurrent theme in research today when speaking to consumers across a range of household incomes is how the prevailing economic conditions are having an enormous impact on household budgets. This came out even more strongly in this research, given that the sample comprised very low income households. In this sample, many participants had experienced wage freezes, loss of overtime and/or bonuses, reduced hours and low job security. Some had been made redundant and where new employment had been found, this was usually less well paid and less secure. An example of this would be a shift from relatively well paid full time employment to a minimum wage 'zero hours' contract. Those on benefits were also being squeezed financially by benefit cuts and in some cases by the bedroom tax. In addition, the cost of food, utilities and transport had increased for all. The consequence of these pressures on the household budget meant that very little, if any income was available for managing debt or attempting to save significantly.

How well a household or individual coped on limited means was often influenced by the extent of the support network available to them. Some in the sample had support from family or friends helping out from time to time, for example providing small cash loans/gifts, occasional meals, and clothing. Others, especially the more socially isolated, estranged from family or without family nearby have found other means of supplementing their income, for example doing favours for friends in exchange for goods or cash. In extreme cases, a one or two individuals had turned to shoplifting for clothes, cosmetics and cleaning products as their income did not stretch beyond housing, utilities and food.

4.2.2 Financial priorities, budgeting and saving

There was little evidence of long term or 'nest egg' saving in the sample, with most saying that after meeting all of their living expenses they had little or no capacity to save. Only two out of the 33 individuals spoken to had any general savings.

Example 1: One respondent was living off his savings after losing his job, to avoid acquiring new debt. At the time of the interview he reported being weeks away from exhausting his savings.

Example 2: Another individual had a small amount of money set aside to cover funeral expenses for herself and her husband; she was trying not to use this money despite struggling to repay debt.

The remaining households in the sample had either used up their savings or hadn't been able to save. Four or five across the remaining sample cited being able to save as a goal for the longer term, but saw this as being contingent on their financial circumstances improving. Everyone else claimed not to think about saving or found it difficult to imagine being able to do so. Evidence was found of short/medium-term funds being 'set aside' in some households, as a way of funding anticipated expenditure such as children's birthdays, Christmas and so on.

Most participants in the research needed to focus on living day to day and managing the resources they had in order to cover more immediate financial priorities. Generally, this meant housing, heating and food.

Longer term goals were generally expressed as aspirational in nature and were rarely underpinned by a firm plan for achieving them. Having a holiday, getting a job, not having to worry so much about money and being able to save something each month (saving was mentioned explicitly by four or five individuals) were the longer term aspirations cited by participants.

Almost everyone who took part in the research claimed to have no safety net or any spare cash to purchase items such as clothes and furniture. These households were often forced to either turn to family/friends (if feasible), charity shops or to borrowing in order to cover emergencies/'extras'. No one made a reference to using food banks, although there were one or two examples given of only being able to buy certain food items as a result of having limited facilities for storing and/or preparing meals. For most, planning meals, seeking out special offers and sticking to a strict food shopping budget was critical in being able to provide food for the household.

4.2.3 Shifts in financial priorities

There was evidence that the emotional pull to provide for one's own children 'beyond the basics' had sometimes led to other priority payments being missed or delayed, which in turn had in some cases led to increased levels of debt. Occasions such as birthdays and Christmas, items such as school uniform and new shoes, especially for those with younger children as well as small day-to day 'treats' all had the ability to push 'spend on children' up the priority scale. This led to new or an increase in existing borrowing in some cases. Some grandparents reported feeling anxious, upset and ashamed at not being able to buy things for their grandchildren, and in some cases had borrowed to avoid admitting they couldn't afford it.

Those who had experienced sudden or more significant loss of income (e.g. job loss, relationship breakdown, bereavement, retirement, etc.) had struggled to adapt to their new income levels. Because of this, there were instances of prioritising spend on clothes, items for the home, gifts for children/family/friends as a result. These spending decisions, which often led directly or indirectly to borrowing, appeared to be closely linked to a desire to maintain self-esteem, pride or a perceived need to 'keep up appearances' or a belief that things would improve once the individual got a new job, a better salary or a new partner. This optimism for the future often resulted in prioritising the short term over long term planning.

While most of the individuals or households participating in the research prioritised food along with housing as essential spend, those who had faced serious debt issues were sometimes prioritising repayments over food.

> *"We have to pay off our debts… sometimes we cook for the girls and me and my husband just have toast"*
>
> Older family, not working, debt repayment plan

These shifts in financial priorities may not be sustainable and are likely to create more emotional stress over time. This was evidenced amongst some of the sample who had been juggling their priorities for a while and reported feeling 'weighed down' by the continual challenge of making ends meet.

4.2.4 Money management confidence and financial experience

Money management confidence: Ability to budget and manage money or limited resources on a daily, weekly or monthly basis.

Financial experience: Experience of a combination of situations including the number and range of different financial products held currently or in the past and how much contact has been had or level of comfort interacting with providers. In addition, an ability to understand how products work and the consequences of borrowing decisions.

Consumers' confidence in managing money and their financial experience appear to go hand in hand, and good financial management implies the need for high levels of both. While this is true in many cases, the findings from this study suggest that there are exceptions. Both this research and previous consumer research conducted by Optimisa Research suggests that these exceptions are not limited to those consumers on the lowest incomes, but can be observed across the population.

In this research, some individuals were very confident in their money management i.e. able to budget/plan well in the short term but had relatively little financial experience in the sense of using a wide range of financial products. In these instances, individuals often felt they understood financial products better than they actually did. This led in some cases to assumptions being made about how products worked.

Others in this research had previous experience of different financial products and some interaction with banks and credit companies, but due to a negative life experience such as redundancy/relationship breakdown, their confidence managing money and making financial decisions had been undermined by a more general loss of confidence.

In addition, while this was a qualitative study and as such not evidenced statistically, the findings suggest a *possible* correlation between ***financial experience*** and ***how long*** individuals had been in the lowest income bracket e.g. annual household income of £11,000-£19,000 or less;

- Those who had arrived at their current situation through a change in circumstances i.e. loss of employment, divorce, bereavement, recent illness or other incapacity, appeared to have higher levels of financial experience. These individuals were more likely to understand how financial products work and (often through first-hand experience) the consequences of any financial decisions they make
- In contrast, those who had been living on very low income or benefits for a longer period appeared to have less financial experience. What stands out for this group in

this research is that as individuals they often had a very narrow range of experience of different financial products, very limited interaction with providers, and as a result, a lower understanding of how financial products work.

4.2.5 Strategies for coping

Many of those at the lower end of the income bracket in the sample had developed strategies for managing on limited income;

- Cash was often used over cards as this was felt to allow for better control over spending and greater visibility of available funds
- Those (most of the participants in the research) using utility cards or keys would pre-load them as soon as they got paid or received their benefits to ensure they would have heating and hot water to last until their next income payment
- Some individuals were compartmentalising their spending into pots i.e. putting aside £X for rent, £Y for food, £X for bus fares. Those using home credit were usually putting aside the cash for this also. In some cases the 'pots' (jars, money boxes or shoe boxes) would be placed in different locations around the home, to avoid dipping into them until needed
- In most of the households in the research there was evidence of meal planning and food budgeting. In some cases individuals were buying exactly the same food items each week rather than varying their meals, as they knew this would last them until their next salary or benefit payment
- Some households were planning ahead for special events like birthdays or Christmas but this wasn't always the case, particularly for some younger individuals or those living with mental health or substance abuse issues
- Having access to and reaching out for support from family and/or friends (financial, emotional and practical support), while not a strategy as such, often made the difference between coping and failing to cope

> ***Stella, 62***
> ***Reluctant Borrower***
>
> Stella is currently on a debt management plan but prior to this she had been struggling to pay her bills and make repayments on her credit cards and loans. As a result she tried to juggle the payments – *"I tried to pay off bills when I could".* Paying whoever was 'hassling' her the most at the time, but at the expense of missing other payments and with little perceived reward- *"…but when you pay them they end up just asking for more, I was getting about 10 calls a day".* She also borrowed money from her sister from time to time to meet payments, until eventually seeking debt advice.

Less positive coping strategies

Money management confidence was a key factor in individuals' ability to develop and implement coping strategies for day-to-day living costs (see above). Those with lower confidence were less able to develop or sustain positive coping strategies and were often susceptible to making poor financial choices. Examples included:

- Juggling bills and making panic decisions around who to pay (see the "Reluctant Borrower" case study above)
- No contingency planning for unexpected bills/emergencies – although most individuals in the sample would argue there is little scope for contingency planning on such a limited budget – and an inability to cope with price increases
- Impulse spending, sometimes in response to the longer term emotional impact of 'just about coping'; spending to make themselves feel better. This often then led to depression or anxiety after the event when other bills/expenses couldn't be paid

4.2.6 Provider relationships/interactions

Relationships with and attitudes towards financial services (FS) providers were largely characterised by personal perceptions, in some cases based on very little actual experience but rather a perception of what that experience might be like.

Banks/credit card providers

More 'traditional' lenders such as banks and credit card providers were generally viewed more negatively, seen as formal, stuffy and 'for the rich'. There was a perception that the balance of power was in the lender's favour; in the context of borrowing many low income consumers feel they had no control over what they could borrow and no bargaining power to influence the terms and conditions. These lenders were often seen as faceless and impersonal, treating customers as 'numbers' and offering little flexibility in terms of borrowing and repaying debt.

Social conditioning appeared to play a large role in perceptions as many came from backgrounds where the more traditional lenders were not familiar to them. In some instances, individuals had not had bank accounts until obliged to, in order to receive benefit payments. These individuals in particular reported feeling uncomfortable running a bank account and interacting with a bank. In such cases interaction was minimal, with funds being withdrawn and managed as cash for the most part.

There were also examples of individuals approaching their bank for a loan or overdraft and being turned down. The reasons for being turned down were not always clear to the customer, leading them to assume it was the fault of their own credit history or rating, or because they didn't earn enough to qualify.

Similarly, some individuals with existing borrowing had approached their bank or credit card provider after a life event resulting in loss of income and reported that the lender was unsympathetic and unwilling to help them find a solution. Both of these experiences, aside from causing emotional distress in some cases, led to the individuals involved not considering those providers again even when their circumstances changed, usually because of a fear of being rejected. One young unemployed male turned to home credit having been told by his bank to *'come back when you've got a job'*.

Examples also emerged of consumers avoiding communication with their bank or credit card provider, especially when they started to get into difficulty. On probing, the reasons for this included fear of rejection, an assumption that the lender could do nothing to help and/or concern that the lender wouldn't respond sympathetically or offer any flexibility to accommodate their change in circumstances.

It is important to note that there were some individuals in the sample who had more positive perceptions of banks in particular, seeing them as trustworthy institutions offering a more sensible and socially acceptable way of borrowing. Some – but not all – believed that bank loans offered a cheaper way of borrowing compared to other credit options. The individuals who had a more positive view of banks tended to have become less well-off due to life events rather than having been on a low income for an extended period. Some had greater financial confidence and more experience of different financial products and providers.

Other lenders

Home credit providers, were seen in a much more positive light, with a very strong focus on the attributes of individual agents. As such, they were described as friendly, approachable, flexible and non-judgmental. Many experiences were offered up to illustrate this, such as being 'let off' one or two missed payments, coming in for tea and a chat, not making customers feel bad about needing to borrow. Home credit lenders in particular were also perceived to want to help people out and to make an effort to keep their custom.

However, some reported having felt pressure from home credit providers and from individual agents to take out more loans. Common examples included being offered money at key times e.g. in the lead up to Christmas/birthdays, and when coming to the end of an existing loan. There was one example of an individual being *'blind-sided'* by an offer (over the phone) of another loan on top of an existing loan but with lower weekly repayments. Having taken the new loan and when reviewing the key features, the customer realised she was going to be paying back a very large amount in total.

4.2.7 Low income and debt

The research indicated that most low income consumers were using credit in a similar way to mainstream consumers e.g. for emergencies, luxuries and larger purchases. The key differences were their *ability to repay* and the likely *relative* scale of their total indebtedness.

- Ability to repay – lower income households are likely to have fewer assets they can deploy in order to cover debts. In addition it is arguable that they are more vulnerable to life events such as job loss and incapacity, particular those in single income households

- Scale of total indebtedness - conversely they are less likely to have acquired larger debts such as mortgages or car loans, so the scale of their total indebtedness may be smaller in absolute terms

In this research, the greatest difficulty with debt appeared to be encountered by those low income consumers who had previously had higher incomes; their change in circumstances had led to difficulty servicing existing commitments, with their total indebtedness often outweighing any assets held.

4.3 Borrowing options and perceptions

The table below details different borrowing options and how these are perceived by low income consumers. Perceptions were highly dependent on the individuals' personal experience, with some participants finding it difficult to give a view on products they were not familiar with.

Credit product	Advantages	Disadvantages
Personal loans	✓ Reliable and safe ✓ Perceived as a better form of credit ✓ More socially acceptable ✓ Better rates than other options (perception of two or three in the sample)	× For those with money × Inflexible × Impersonal (common those who have been rejected by banks × Unfair charges/penalties
Overdrafts	✓ Good buffer against unexpected expenses (if have/had in past) *NB – overdrafts discounted by most of sample as unavailable to them*	× Risky as can easily get out of hand and suck up income × Often seen as 'my money' rather than borrowing × Unfair, inflated over-limit charges – spiralling problems
Credit cards	✓ Convenient for large or emergency purchases *NB – credit cards discounted by most of sample as unavailable to them*	× Too easy, convenient and quick – leads to overspending × Automatic credit limit increases × No clear explanation of consequences of making minimum payments
Mortgages	✓ Desirable – implies stability and success ✓ Cheapest form of borrowing *NB Most of the sample lived in social housing, housing association property or private rental.*	× Unattainable (assumed and experienced)

"I just kept paying the minimum payment because that's what I thought you had to do"

"I can't understand why my mortgage got turned down – I've paid my payday loans off on time"

Credit product	Advantages	Disadvantages
	Most did not have/had never had a mortgage	
Store cards	✓ Ability to supplement income to cover clothes/home wares ✓ Discounts at point of sale ✓ Easy to obtain	× Tempting to overspend × Not always recognised as credit, but more as a payment method × High interest rates (where recognised)
Hire Purchase Agreement (HPA) or Buy Now Pay Later (BNPL arrangements	✓ Convenient for large/emergency purchases *NB often discounted as borrowing option as assume they will not be approved or unfamiliar with HPAs*	× T&Cs difficult to understand × Consequences of missed or late payments not always clear × Implications of not settling BNPL arrangements within interest free period not always clear
Catalogues	✓ Convenient & familiar solution ✓ Often 'run' by friend/family member… encourages repayments (personal responsibility) and offers flexibility ✓ Assumed to be no interest	× If deal directly with catalogue – examples of unsympathetic, inflexible customer service if repayments can't be met × Expensive compared to high street (but forced to use due to lack of cash) × Low awareness and understanding of impact of late/missed payments × Not always recognised as borrowing – habitual, way of life, longstanding behaviour
Online shopping accounts	✓ Convenient for emergency purchases	× Negative experiences and lack of flexibility/sympathy if customer gets into difficulty

Credit product	Advantages	Disadvantages
		× Low awareness and understanding of impact of late/missed payments × Not always recognised as borrowing – seen as spending × Not accessible to all (no/limited internet access)
Home credit	✓ High likelihood of approval ✓ Friendly, familiar, way of life ✓ Personal service ✓ Non-judgemental ✓ Flexible if payments need to be missed/postponed ✓ Low weekly repayments tailored to customer affordability ✓ Interest rates outweighed by convenience, flexibility and ease of approval	× Pressure to continue borrowing (a small number complained about this) × Low awareness of interest (few could state the interest they were paying without checking) or impact on credit history
Payday loans	✓ Speed of access to funds ✓ Ease of application ✓ Low risk of rejection ✓ Ability to rollover ✓ Limited credit checks/little proof of income	× Too tempting (too quick & easy) × Perception of PDL companies 'preying' on vulnerable consumers with daytime and prime time TV advertising × High interest rates – acceptable trade-off (for most) for ease, speed and being approved
Rent-to-own	✓ Useful option for emergency purchases	× Very expensive – (easy for consumers to compare 'like for like' absolute cost of an

"I've always paid my Provident loans off on time so that has to be good for my credit score"

Credit product	Advantages	Disadvantages
		outright purchase vs. a rent-to-own purchase – but some accept the cost as they feel no other options are available to them) ✘ Aggressive collection process (minority)
DSS/Budgeting loans	✓ Designed for 'people like me' (expected to be available, tailored to needs) ✓ Repayments taken straight from benefits	✘ Repayment levels can be too high as a proportion of income (one example of a young female who having received two budgeting loans was left with £73 a fortnight to cover her living expenses)
Credit union loans	✓ Low interest ✓ Encourage users to save ✓ 'Designed for people like me'	✘ Minimal awareness, so not on radar as a borrowing option for most ✘ Seen as inaccessible by the most financially squeezed ✘ Unable to save and therefore unable to access this type of loan
Pawn shops	✓ Immediate access to cash in an emergency ✓ Local, over the counter ✓ Pawning treasured items such as jewellery can provide a strong incentive to repay the loan	✘ 'Extortionate' payback rates ✘ High risk of losing the goods if unable to pay back promptly ✘ Desperate, last resort option (emotional discomfort, shame, embarrassment)
Loan sharks	✓ Sometimes the only viable option ✓ The risks associated with not repaying (violence, aggression)	✘ Desperate, last resort option (emotional discomfort, shame, embarrassment) ✘ Physical risk if loan not

Credit product	Advantages	Disadvantages
	can act as a motivator for repayment ✓ High likelihood of approval ✓ Local, easy to access (the poorest consumers in the sample knew where to find one)	repaid *NB – almost universally rejected as an option, although two or three said they would consider it if there were no other alternatives*
Logbook loans	✓ No top of mind benefits, although one or two felt it might be the only option in a crisis	× Risk of losing car × Expected to be very high interest (no real awareness of logbook loans in sample) *NB – almost no awareness of logbook loans in the sample, but a high proportion did not own a car, so not relevant to them as an option*
Friends and family	✓ Preferred option if viable ✓ Interest free, flexible ✓ Personal relationship provides some motivation to repay	× Emotional discomfort – guilt, embarrassment, shame – some would not ask for help on this basis × For many it is not an option – friends and family in equally difficult financial circumstances

4.4 Borrowing typologies

Analysis of the data gathered in this research uncovered three key borrowing typologies – **Survival borrowing, Lifestyle borrowing and Reluctant borrowing**. *These typologies are not segments, nor are they permanent states.* Many of the research participants had moved between the three typologies at different points in their borrowing journeys. Relative affluence had a strong impact on which borrowing typology an individual exhibited at any given point in time, but other factors played a part. Examples included the presence or lack of a strong support network, ability to work or find employment, mental health issues and perceived borrowing options available.

4.4.1 Borrowing journeys

The borrowing typologies identified by the research are not segments, nor are they permanent states. Movement between the typologies is highly conditional on financial circumstances, vulnerability factors and financial experience. The following figures illustrate some of the typical movements between typologies observed in this research.

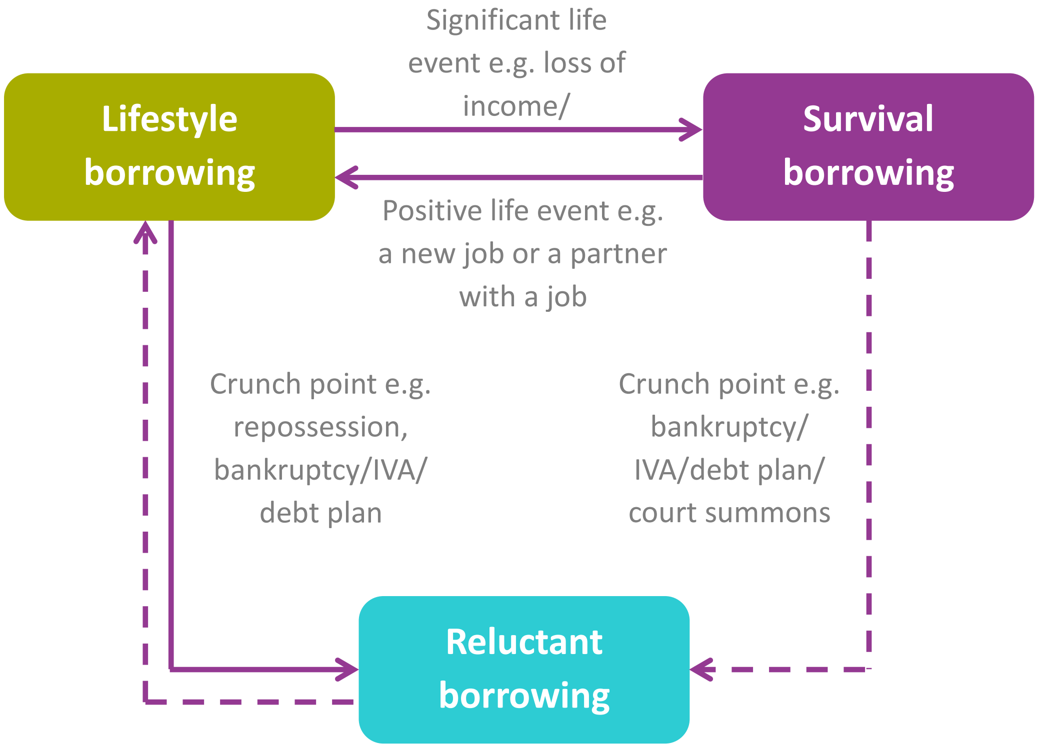


Fig. 2 – Overall schematic of borrowing journeys

When fragmented borrowing turns into too much borrowing, or a 'life shock' results in an unexpected change in circumstances, lifestyle borrowers can reach a tipping point when debt is no longer manageable (Fig. 3);

Lifestyle borrowing

- Borrowing is often out of control
- Credit being used to for home furnishings, TV/Audio, white goods, birthdays and Christmas and emergencies
- Repayment intentions at outset good
- Reality hits (sometimes quite quickly) and unable to pay off in full each month
- Try to pay more than minimum each month but not always successful
- Crunch point: can no longer cover all outgoings/ repayments and/or reduction/loss of income or increased contact from creditors
- Resulting in repossession, bankruptcy/IVA, debt management plan
- And leading to a reluctance to taking out credit in the foreseeable future

Reluctant borrowing

Fig. 3 – Lifestyle to Reluctant borrowing

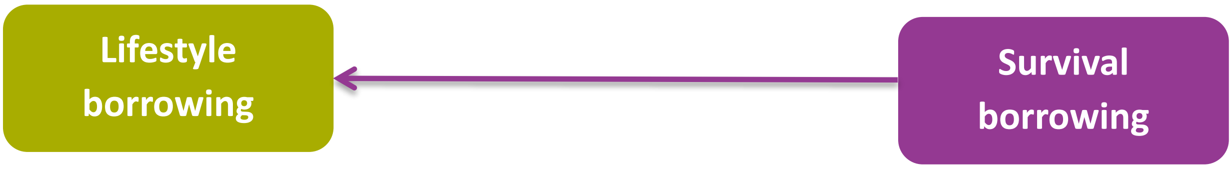
A different route may be taken when the life event, instead of leading to a crunch point, leads the borrower to 'panic' borrow, taking on more debt to the point that they need to borrow to survive (Fig. 4);

Lifestyle borrowing → **Survival borrowing**

- Borrowing is more in line with their income
- Repayments being made (although may still be struggling to pay off in full each month)
- Significant life event e.g. relationship breakdown, loss/reduction in income, (mental) health issues
- Leads to a change in financial circumstances, making it very difficult/impossible to meet repayments on existing credit
- Often head in sand, trying to get by, ignoring default notices/court summons/etc.
- Turn to less mainstream credit products to get by e.g. home credit, PDLs

Fig. 4 – Lifestyle to Survival borrowing

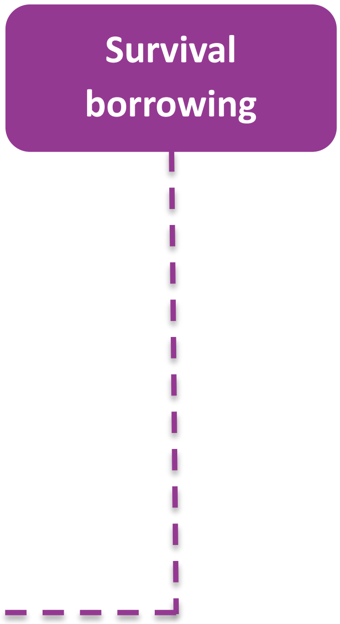
Equally, a positive life event can lead from Survival borrowing into a more discretionary, aspirational phase of Lifestyle borrowing (Fig. 5);



- Survival borrowers tend to be younger
- Strong likelihood they will stay in this state for a long time, unless they get the 'long dreamt of' job or find a partner with a job
- Unlikely to result in savings behaviour – more likely to result in greater use of credit as more options open to them

Fig. 5 – Survival to Lifestyle borrowing

Less commonly, borrowers can move from Survival to Reluctant, typically as a result of some sort of intervention such as receiving debt advice or other support (Fig. 6);



- Potential to move from Survival to Reluctant borrowing with the help of someone/a debt service
- Evidence of this in the research… survival borrowers (close to suicide) now in debt management plan and avoiding credit where they can, encouraging others to avoid as well
- For those currently in the Survival state , interest shown in free debt management services that would;
    - Stop the calls/letters
    - Work out what is feasible to pay each month
    - Find a way out of the mess

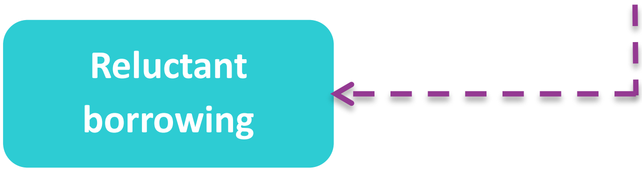
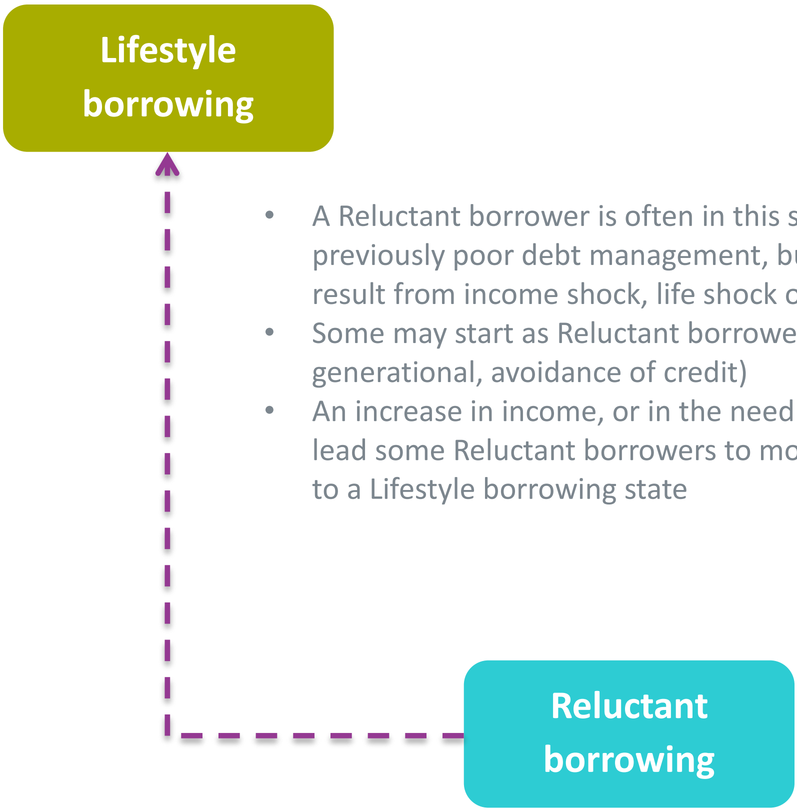


Fig. 6 – Survival to Reluctant borrowing

Although there was no evidence of it having happened in this sample, there were some indications that Reluctant borrowers could, over time, become Lifestyle borrowers, either as a result of some improvement in circumstances, or as a result of finding it too difficult to manage without credit over the long term (Fig. 7);



- A Reluctant borrower is often in this state as a result of previously poor debt management, but equally likely to result from income shock, life shock or loss
- Some may start as Reluctant borrowers (e.g. generational, avoidance of credit)
- An increase in income, or in the need for credit, can lead some Reluctant borrowers to move from this state to a Lifestyle borrowing state

Fig. 7 – Reluctant to Lifestyle borrowing

4.4.2 Snapshot comparison of the three typologies

	Survival borrowing	Lifestyle borrowing	Reluctant borrowing
Key characteristics	• Borrowing to supplement income • Generally not concerned or scared about debt – no option • Low money management confidence & financial experience • Substance abuse and/or mental health issues • Often isolated individuals with no support network • Often younger, on benefits, apprenticeships or with patchy employment history	• Fragmented borrowing • Tendency not to recognise some forms of credit as credit • Meeting minimum payments feels fine – everything under control • Loss of income, increase in costs or emergencies can disrupt	• Credit often acquired when better off • Have experienced a loss in income • Often leads to debt consolidation or repayment plans • If working, tends to be in unstable employment • More financial experience than other borrower typologies • Loss of confidence • Very focused on budgeting/living within means but may turn to credit for what they see as essential
Role of credit	• Borrowing is a necessity, a way of life: the norm in the community • Using home credit, PDLs & local money shops	• Generally have sufficient income but little left to cover discretionary spend or emergencies • Credit used for things for the home and birthdays/ Christmas	• High levels of debt in past with mainstream lenders • Role of credit is limited – only if unavoidable • Focus is on paying existing debts • Some have paid off debts and are 'scarred' by experiences

	Survival borrowing	Lifestyle borrowing	Reluctant borrowing
New borrowing	• Take out what they can get • Often seeking credit but also susceptible to approaches by lenders • Focus on affordability of repayments • A small number have no intention or no realistic chance of repaying debt • Mainstream options not on radar	• Some claim to be anti-borrowing but end up borrowing • Susceptible to offers from lenders e.g. store cards, pre-approved application forms • Shopping around for credit not a consideration	• Try hard to avoid new borrowing • Only take on if considered to be manageable • Some believe they now have a better understanding of credit options and shop around more now

4.4.3 Survival borrowing

Key characteristics

The Survival borrowers were using credit as a way of getting by day-to-day, supplementing their income. They were usually receiving benefits, serving an apprenticeship or on minimum wage/part-time/zero hours contracts. Many were not overly concerned or scared about their debts, as they felt they had no option but to borrow. When asked to consider a scenario where credit was not an option available to them, most felt they would struggle to survive and might turn to less desirable sources of 'income' such as unregulated borrowing, or crime.

Those who were in the Survival borrowing state in the sample generally had low confidence managing money and very little financial experience or interaction with providers. There were also a number of examples of mental health issues and some instances of substance abuse. Many were young, socially isolated individuals or single parents with no or very little in the way of a support network.

> ***Sophie, 24***
> ***Survival Borrower***
>
> Sophie is single and has spent most of her life unemployed and relying on benefits. She has various debts currently; 2 social department loan which come out of her benefits meaning she has only £73 to live on a fortnight, a £100 Wonga loan, and a £100 Greenwoods loan. She has no interest in the cost of borrowing and how much she will repay as she has no intention of repaying in her current situation. She has little fear of not meeting payments believing nothing can be taken from her as she has nothing of value and no spare money. She has little financial support and has turned to shoplifting. She suffers from severe anxiety, struggling to leave the house.

Those borrowing to survive tended not to be working or to be on benefits, with a patchy employment history. A very small number (two or three individuals) had little respect for authority or any fear of the consequences of their actions (whether financial or non-financial). In the most extreme cases, this generally stemmed from a feeling that their situation was so bad, nothing could make it worse. It was clear that this feeling had led a very small number to borrow with no intention or any real prospect of repaying.

Role of credit in Survival borrowing

Those borrowing to survive were often actively seeking out credit as it was critical to making ends meet. At the same time, they were also susceptible to approaches from lenders. Any approaches were actively welcomed without questioning the terms and conditions; access to cash was the overriding focus of attention.

Most were using home credit, payday loans (if they could get them), and local money shops. There were examples of Survival borrowers using aliases to maximise chances of approval e.g. details of family or friends (with and without consent), maiden names and so on.

For a minority, Survival borrowing was a way of life and many had grown up in an environment of living hand to mouth, observing family members using credit in the same way.

New borrowing/shopping around

When Survival borrowing, the prevailing attitude was to take whatever was available. The overriding concern was having the loan approved. Little consideration was given to interest rates, term, etc. When this was challenged, all 'power' was perceived to rest with the lender, with the borrower having nothing to bargain with, and the only power of any interest to the borrower was the power to approve or refuse the loan. As such, it was considered entirely normal for the lender to set whatever rate or conditions they deemed appropriate.

For most of those borrowing to survive, the key focus was on the affordability of repayments. This was usually low weekly amounts such as £10, which they saw as manageable. The research did reveal a small number who had either no intention or no realistic prospect of repaying, and knew this at the time of application.

'Mainstream' options such as bank loans, credit cards and even store cards were generally not on the radar, largely due to a lack of familiarity with the products, social/environmental influences (e.g. parents/friends with no banking relationship) or in the case of more experienced consumers, because they had had a negative event in the past such as being rejected for credit or unsettled debts.

Product consideration and usage

Survival borrowers were typically considering whatever products they thought they might be accepted for. This included home credit, DSS/budgeting loans, payday loans, catalogues, rent-to-own agreements and loan sharks. More mainstream options such as bank loans, mortgages, and Buy Now Pay Later (BNPL) deals were generally outside their product portfolio, largely because of familiarity and perceived irrelevance or lack of availability due to low income or credit history. The table below gives more detail on which products those borrowing to survive would consider/use and why, and any potential negative consequences they may have experienced as a result. It is important to note that the individuals themselves may not have been aware of any potential negative consequences.

Product	Why did they use these products?	Potential consequence
Home credit	Friendly, non-judgmental agent Flexibility of repayments High likelihood of approval	*Financial* – pressure to take out another loan when nearing the end of the term *Financial* – the total amount repayable
DSS/budgeting loans	'Free' money – an advance on future benefit payments	*Financial and emotional* – little consideration given to other debts held, or to the viability of managing on the resulting reduced benefits
Catalogues	Access to otherwise unaffordable items Not seen as borrowing Little compulsion to repay (some)	*Financial* – low weekly repayments can make items seem more affordable
Rent-to-own	Access to higher cost goods Good chance of approval	*Financial* – very high interest
Payday loans	Quick access to cash	*Financial* – inability to pay back as agreed leads to rollover and much higher interest *Financial and emotional* – direct debit model can leave borrowers without cash for living expenses
Loan sharks	Familiar (some) Consequences of not repaying encourage settlement	*Financial* – very high interest *Emotional* – the fear of potential physical harm
Credit unions	Often referred by a support service e.g. refuge, debt adviser Low interest High likelihood of approval if able to save	*No perceived negative consequences – but few have experience / are aware of this as an option*

Products outside their portfolio

Bank loans were not on the radar for Survival borrowing. They often had a limited or no relationship with a bank, with few holding a current account (benefits were paid into a post office account for most). Due to their income levels, there was an expectation (based on assumption or in some cases experience) that they would not be approved. There was also a sense for some that a bank loan felt more official or formal and therefore inflexible about repayments.

Overdrafts were outside their product portfolio either because they didn't hold a current account, or assumed they wouldn't be approved for an overdraft

Mortgages were out of reach and generally not on the radar

Credit cards appealed to some (as a payment method and access to goods) but there was the expectation (assumed or proven) that they would not be approved. Some Survival borrowers had previously held credit cards for example as Lifestyle borrowers, but due to their changed circumstances and high levels of current or previous debt, they assumed they wouldn't be approved.

Store cards were similar to credit cards – some (previously Lifestyle borrowers) had held them in the past but there was a general expectation they wouldn't be accepted again, and most were rarely in a situation where they might be offered one (i.e. buying something in a store). For clothing and home wares, most would consider catalogues instead.

BNPL deals were not a familiar form of credit to those borrowing to survive as they were rarely in situations where they might be offered this type of credit. Because of this, there was limited awareness and understanding. If a larger value item had to be purchased as a necessity, either catalogues, rent-to-own or a DSS/budgeting loan would be considered.

Logbook loans were unfamiliar. Most didn't own a car and for those that did, it was considered to be of very low value and unlikely to be feasible as something to borrow against.

Online credit was generally not on the radar; few had access to the internet (a small number of mainly younger participants could access the internet via a mobile phone). Catalogue credit was seen as the most appropriate solution for clothing and home wares.

4.4.4 Lifestyle borrowing

Key characteristics

Lifestyle borrowers were borrowing aspirationally. Most had fragmented borrowing; multiple borrowing relationships, each with relatively low individual amounts/repayments.

The mind set of *"It's only £10 a month"* created a false sense of security. The fragmented nature of the borrowing meant that there was very low visibility of the total borrowing. As a result, it is easy for consumers to ignore their total indebtedness, and difficult for those interested in so doing to gain an accurate picture of the full extent of their indebtedness. Correspondingly, and factoring in the tendency (discussed in more detail below) for some forms of borrowing to not be recognised as such, it would be equally difficult for prospective lenders to evaluate the extent to which applicants could afford credit repayments, especially if the lender was relying on the applicant to disclose all of their existing borrowing.

Kerry, 35
Lifestyle borrower

Kerry lives with her mum and two daughters and receives housing benefit. She has been in and out of work in the past, struggling as a single mum. She is now studying and working 6 hours a week in the hope of better financial stability in future. She relies on her student loan, and says that she does not want to borrow anymore. However Kerry has numerous credit products she does not spontaneously view as 'borrowing'. She tends to borrow as a way of life for certain things and often uses credit cards. In the past she has had numerous home credit, personal loans, credit cards and catalogues. She has little consideration and apparent understanding of the cost of borrowing and bases decisions on the cost of weekly/monthly payments.

Those borrowing to fund their lifestyles exhibited a strong tendency not to recognise certain forms of credit as borrowing. These included BNPL arrangements, catalogues, and online shopping accounts. In addition, whilst relatively confident managing their finances day to day, in many cases these borrowers' financial capability was low. In particular, there was often low awareness and understanding of how the interest worked on their different credit products, low engagement with what interest was payable and little awareness of the consequences of making minimum repayments if available. This last point was especially important, as Lifestyle borrowers typically thought that making minimum rather larger repayments was the lender's requirement, and that as long as they were able to keep up with minimum repayments all would be well. As such, meeting minimum payments was perceived to be acceptable and those borrowing in this way felt that everything was under control as a result. However, the research uncovered several examples of this approach being disrupted by loss of income, increases in the cost of living and/or unexpected expenses, making it difficult for the individual to maintain all of their minimum payments.

In the sample the Lifestyle borrowers were usually working – at least part-time – or on benefits while seeking employment – as opposed to those in the sample who were unable to work – and tended to be a little older and more experienced than those borrowing to survive.

Role of credit in Lifestyle borrowing

Generally the Lifestyle borrowers had sufficient income to live on, but with little/nothing left for discretionary spend or emergencies. Credit was used to fund the purchase of home furnishings, TV/audio products, white goods, special events such as birthdays and Christmas, and to cover emergencies. Children and the home were often a key focus and/or a justification for borrowing.

A small number of the individuals categorised as Lifestyle borrowing had only a few products as opposed to multiple debts and were generally managing to keep on top of minimum payments. Nevertheless, they also appeared to be vulnerable to any unforeseen change in circumstances that could make it difficult to meet their commitments.

New borrowing/shopping around

Some Lifestyle borrowers claimed to be 'anti' borrowing but borrowed anyway. They were often susceptible to offers from lenders i.e. store cards. Being approved – or receiving a message of being pre-approved – seemed to provide a sense of reassurance that they must be able to afford it (otherwise it wouldn't be offered) and that their credit score must be satisfactory.

The Lifestyle borrowers were rarely shopping around, choosing to use existing lines of credit or new ones where they had been pre-approved, for ease and convenience and to avoid being rejected.

Product consideration & usage

Lifestyle borrowers were less likely to consider as many different forms of credit as those borrowing to survive but the more mainstream options were often excluded as unavailable to them. The table below gives more detail on which products the Lifestyle borrowers were considering/using and why, and any potential negative consequences they may have experienced as a result. It is important to note that the individuals themselves may not have been aware of any potential negative consequences.

Credit Product	Why did they use these products?	Potential for negative consequences
Catalogues	Longstanding habitual usage, not seen as borrowing. Little pressure to pay off as long as they were making minimum payments. Mainly used for clothes, home furnishings and gifts	*Financial* – confusion around the interest charged – perceived to be expensive product due to inflated pricing rather than as a consequence of there being interest added *Financial* – not seen as borrowing and therefore not taken into account as a debt
Home credit	Easy, non-judgmental, friendly and convenient. Flexible repayments, 'ok' to miss/adjust payments. Sometimes used to supplement income when feeling particularly squeezed	*Financial* – may pay higher interest as a result of extended repayment times but no perceived detriment. Most aware of the high interest rates charged but this was traded off against the perceived need to borrow and the ease/convenience of service
Online credit	Rarely seen as borrowing	*Financial* – rarely seen as borrowing so low awareness of interest and not taken into account as debt
BNPL	Used for larger purchases if approved, not always seen as borrowing	*Financial* – confusion around when interest becomes payable, which in some cases led to paying more interest than necessary
Store cards	Tended to dip in and out of using these. Many are notionally aware of the high interest rates charged but susceptible to offers at point of sale	*Financial* – low awareness of the consequences of missing payments or of always making the minimum payment
Rent-to-own	Often disparaging of the high cost but some have used in an emergency i.e. for white goods if other options are unavailable	*Financial* - users were usually aware of the inflated cost of items purchased but traded this off against their need/perceived lack of alternatives

Products outside their portfolio

Bank loans, mortgages, credit cards and overdrafts were often assumed to be unavailable either because of their employment situation or because they had had previous credit problems and/or been turned down in the past. As a result, they were unwilling to risk being rejected. Assumptions were often made about their credit history/credit score; this was rarely checked or any efforts made to find out. Most had little experience of overdrafts – either because they had never been offered one or had chosen not to have one.

Payday loans were seen as more expensive than home credit and unfair charges were perceived to lead to spiralling debt – this view often appeared to be highly influenced by adverse media coverage.

Credit unions were not a familiar credit option with most participants in the research having never heard of them. Once they were given a brief explanation of how credit unions work, many felt they were potentially a 'better' option for borrowing than some of the less mainstream forms of credit, and some were attracted to the idea of having to save to borrow. Despite the appeal, most wouldn't know how or where to find a credit union in their area.

Logbook loans were generally not on the radar. When given a brief description of the concept, most were highly resistant to the idea; cars, where owned, were usually considered to be essential either for getting to work, finding work, or simply for transport, and as such were too valuable an asset to risk losing.

Loan sharks were generally outside of the Lifestyle borrower's personal experience. They were seen as representing the least credible form of borrowing, only to be considered if absolutely desperate and having exhausted all other options.

4.4.5 Reluctant borrowing

Key characteristics

In the sample Reluctant borrowing was chiefly characterised by having had negative life experiences or previous difficulties with debt that had left many determined to avoid credit going forward. Credit had often been acquired when they were better off. Many had experienced a loss of income and/or a change in personal circumstances such as redundancy, relationship breakdown, bereavement, health issues or small business failure. This in turn reduced their ability to make repayments and had led some to consolidate debts with further borrowing or repayment plans. Others had received debt advice and were on debt management plans.

"It was OK when I was working, I didn't have to worry about money"

In many cases their experiences had had a significant emotional impact as well causing financial stress, leaving them feeling degraded. Words such as 'useless' and 'worthless' were often used to describe how they felt and many appeared to be struggling to adapt to their changed circumstances.

Those who were working tended to have unstable incomes, having taken a significant salary reduction and a job they did not enjoy or feel suited to in order to get back into employment. Others had found temporary work or were trying to work in a self-employed capacity. Those who were not working often reported having been diagnosed with depression or were unable to work due to physical ill health.

Having previously been on higher incomes, their exposure to financial products and their interaction with providers was more developed than others in the sample, and many had greater financial experience. Their confidence managing money however had in some cases lowered. In many cases, previous negative experiences with debt problems had enhanced their financial knowledge, providing them in hindsight with a better understanding of how credit products work and the consequences of making minimum payments/missing payments. Their experiences also appeared to have left them with a greater appreciation of interest rates than they had previously had.

Sally, 45
Reluctant Borrower

Sally lives in rent to buy accommodation, provided by a housing association. She lives alone and appears to have longstanding mental health issues, and is confused about the amount and timings of borrowing and debts. She was made redundant after 24 years, which came as a huge shock and caused a loss of confidence. She currently works in a low paid position which she does not enjoy. She acquired multiple borrowings when working (credit cards, loans, store cards and an overdraft). After her mother left and when she became redundant, she missed some payments and debts/spending began to spiral out of control She missed payments. Debts and spending spiralled. Her bank referred her to Step Change and she is now on a repayment plan. Her debts total around £47K, now owing around £27K.

Whilst Reluctant borrowers were generally the most financially experienced consumers in the sample, the combination of life events and debt problems had caused many of them to have experienced a loss of confidence – both financial and non-financial, that in some cases seemed to be significant. This was evidenced by a common tendency to blame themselves for the situation they found themselves in, and frequent references to having been ‘stupid’ and ‘naïve’.

Very few had a safety net, although some had had savings in the past that they had spent trying to stay afloat. As such they were very focused on budgeting and on living within their means. Despite a strong desire not to acquire new debt, some admitted they might turn to credit for what they saw as essential borrowing.

It is important to note that one or two in this group had not experienced significant debt issues or a negative life shock, but were instead inclined to avoid borrowing wherever possible, either as a result of their personal attitude to finance or more often because they had been brought up to perceive all borrowing as inherently ‘bad’.

Role of credit

The Reluctant borrowers had often had higher levels of debt in the past than others in the sample, often from mainstream lenders, for example having had mortgages (some), car loans, credit cards, and overdrafts. The role of credit in their lives now is limited. They were focussed on paying off existing debts and did not want to take on more borrowing. Those that had already paid off their debts were to some extent ‘scarred’ by their experience and were trying hard to live within their means without credit. However, this wasn’t always possible and some had found themselves needing to borrow in order to cover ‘unavoidable’ expenditure.

Because of their past credit problems, most self-excluded from mainstream borrowing options, assuming they would not be eligible for credit. Most had not tried to find out whether or not this was indeed the case.

New borrowing/shopping around

The Reluctant borrowers were working proactively to avoid temptation, particularly with regard to what they would now classify as non-essential spending. They tended to tear up direct mail (DM) from lenders and say no to store cards if offered. Two or three (those whose debts had been paid off) had taken out or managed to keep limited lines of credit, and were claiming to be in control and having only manageable debt. They typically viewed their use of credit now as ‘essential’ or ‘enabling’. An example of ‘enabling’ credit would be borrowing to set up a small business or self-employment.

Many felt they had a better understanding of credit options and would do more shopping around than they did before they had debt problems or their circumstances changed. They claimed to be more confident and to have learnt from their experiences, but there was some evidence that they might make future borrowing choices based on assumptions about what credit options were likely to be available to them; this could lead to more suitable borrowing products being overlooked.

Product consideration & usage

The Reluctant borrowers tended to have had a history of larger scale borrowing, typically from more 'mainstream' lenders. The table below gives more detail on which products the Reluctant borrowers would be likely to consider/use and why, and any potential negative consequences they may have experienced as a result. It is important to note that the individuals themselves may not have been aware of any potential negative consequences.

Product	Why did they use these products?	Potential for negative consequences
Mortgages	Four or five households in the research held mortgages (one of these was rent to buy via a housing association). The balances were generally small and the borrowing taken out when they had more income and a mortgage was a readily available option.	*Financial & emotional* – Minimal shopping around. Some loss from endowment policies – they now felt duped to have trusted the provider/adviser. Some had had their homes repossessed, causing financial loss and emotional distress
Bank loans	Again, these were largely taken out when their income was higher; the focus now is to pay them off. Some had taken out loans to consolidate other debts, while others assumed this would not be viable due to their circumstances	*Financial & emotional* – lack of consideration of any alternatives or of longer term consequences. Some felt in hindsight they were 'sold to' and that their purchase was based on convenience and trust in the bank.
Credit cards	Many had used credit cards in the past and some still held one, but generally they didn't use or plan to use them again. Some had obtained but not activated a card, keeping it as a safety net. Some felt they previously managed their cards well, paying off the balance in full when they could. This	*Financial* – little real consideration of interest rates; they tended to group generally as being either 'high' or 'low' interest. Very little shopping around and often encouraged to take credit out initially by their bank or the credit card provider (to improve their credit rating). Little awareness of the consequences of minimum, late

Product	Why did they use these products?	Potential for negative consequences
	happened less frequently as their circumstances changed and balances grew larger.	or partial repayments once unable to pay off the balance in full *Emotional* – some in debt management plans now blame themselves for the difficulty they found themselves in
HPA (0% finance)	Limited use now, although many had used in the past. A couple had used this more recently as an enabler such as to fund materials for self-employment or for essential purchases	*Financial* – plan was/is usually to pay off within the interest free period but often there was/is a lack of understanding of the interest rate payable beyond this period
Friends & family	Preference is to avoid this route, although a small number had done it on a small scale in an emergency	*Emotional* – guilt, pride, embarrassment

Products outside their portfolio

Credit unions - Like most of the sample, awareness of credit unions amongst Reluctant borrowers was very low. Where there was awareness these were viewed positively but many assumed they wouldn't be accepted due to past difficulties. Most felt unable to save in order to qualify. Additionally, future borrowing would only be considered in the case of an emergency so saving to borrow didn't fit with their mind set.

DSS/budgeting loans were not on the radar.

Overdrafts had been used in the past as a 'buffer'. This was often perceived as an expensive way to borrow, with many having experienced fees and charges. There was an expectation that they wouldn't be accepted for an overdraft in future; most have basic bank accounts and some are still on debt management plans.

Store cards were largely viewed very negatively as 'spending beyond your means' or unnecessary. There was a strong desire to live within their means although for the small number on slightly higher incomes, this was sometimes seen as an acceptable albeit expensive form of credit – possibly because it was not always seen as borrowing and may have been valued by those struggling to adapt to changed circumstances.

Catalogues were also viewed as 'spending beyond your means' but a more relaxed attitude was seen in some. Catalogues often featured in historic borrowing, before they became more knowledgeable about credit. In those instances, they were often used for furniture or other large purchases that were either seen as essential or that they felt they would be able to pay off relatively quickly.

Rent-to-own and BNPL deals were often categorised along with store cards and catalogues as being for 'frivolous' spending. There was less consideration and use of these forms of credit compared to those above; the assumption was that they are expensive ways of borrowing and something to be avoided.

Payday loans were also seen as very expensive and most had very negative perceptions of them, largely informed by negative media coverage. Very few had actually ever considered or used this form of credit. Most felt payday loans were targeted at those on lower incomes who were desperate.

Home credit generally was not on the radar, with limited awareness of home credit providers in their area and little understanding of the mechanics of home credit. Amongst those who were more aware, home credit tended to be associated with loan sharks – an expensive form of borrowing for those who are desperate.

Logbook loans were not on the radar. When a brief description was given, most were horrified at the concept. If they owned a car, they would not risk losing it.

Loan sharks were never considered, although most were aware of their existence in theory. They would avoid this form of credit, seeing it as expensive and dangerous. If they were interested, they wouldn't know where or how to find it.

4.5 Over-indebtedness

One objective of this research was to understand the consumer journey into over-indebtedness where observed, and to explore what role – if any – different credit products have to play in this. To help the researchers examine this, all of the participants in the research had experienced over-indebtedness[1] at some point in their lives, whether currently or in the past.

4.5.1 Difference across typology states

With the exception of a very small number of consumers in the sample who sometimes entered into new credit arrangements with no intention of repaying the debt (or would find it very hard to meet repayments), most individuals had considered the affordability of their repayments. As such, most started borrowing on the basis of feeling comfortable with the weekly or monthly repayments. Looking at the three borrowing states or typologies, there were some differences in how each was susceptible to moving from indebtedness into over-indebtedness.

Using credit to survive meant that Survival borrowers were already in a position of over-indebtedness where payments were often missed, leaving them trapped in a cycle of debt they had little prospect of getting out of without some sort of positive change such as an increase in income or intervention such as a referral to debt advice or support

The Reluctant borrowers in the sample had generally acquired larger scale debts (i.e. a high debt to income ratio) at a time when they had higher earnings, which meant that a combination of loss of income, higher debts, and/or a change in personal circumstances could lead them swiftly into a situation where meeting their financial obligations became unmanageable. This situation was sometimes exacerbated by the emotional impact of the events that had happened, which led some to try to 'continue as normal', acquiring more debt as they struggled to adapt to their new situation.

[1] The term over-indebtedness is used to describe debt which has become a major burden for the borrower. http://webarchive.nationalarchives.gov.uk/+/http://www.dti.gov.uk/ccp/topics1/overindebtedness.htm

Lifestyle borrowers were equally susceptible to changes in circumstances, usually through loss of income or increased/emergency expenditure. In this state, having multiple small pots of debts meant that any negative change in circumstances/unexpected costs would usually lead to juggling and/or missing repayments. Among Lifestyle borrowers, a tendency of making minimum payments wherever possible to get through difficult periods was observed.

4.5.2 *Consumer response to over-indebtedness*

Across the sample individuals had responded to over-indebtedness in different ways, developing a number of strategies for coping with the situation they found themselves in. Coping strategies varied depending on the relative severity of the situation, and ranged from reassessing spend on essentials/cutting back where possible, to ignoring contact from creditors and debt collection agencies and seeking help to get onto repayment plans. In the most severe situations, some had been unable to keep their homes.

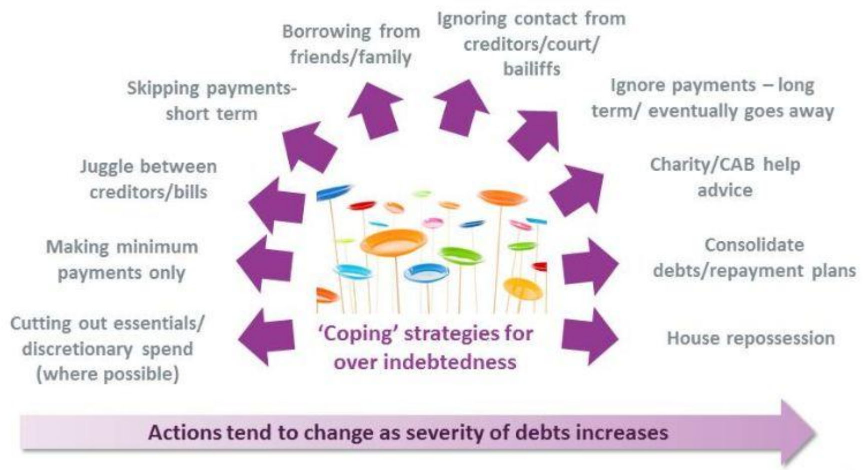


Fig. 8 Consumer responses to over-indebtedness

Although there was a degree of overlap between the typologies in the coping strategies that were adopted, some patterns emerged;

Lifestyle borrowers were more likely to respond to over-indebtedness by;

- Cutting out essentials/discretionary spend where feasible
- Making minimum payments only
- Juggling payments between different creditors/bills
- Skipping payments (short term)

Survival borrowers were more likely to;

- Ignore contact from creditors/courts/bailiffs
- Skip payments (long term) – in some cases experience had shown that eventually the debts would 'go away'

Reluctant borrowers were more likely to;

- Cut out essentials/discretionary spend where feasible
- Seek help from the Citizen's Advice Bureau or other debt advice charities
- Consolidate debts if possible or get onto debt management plans
- (in extreme cases) Give up their homes

Most would borrow from family and friends to help at times of crisis, although some felt too proud, embarrassed or ashamed to do so. Equally, for many this was not an option, either because their friends and family were in similar situations, or because they did not have that support network.

4.5.3 Contributing factors

The research uncovered a number of different factors that appeared to have contributed to over-indebtedness.

Low levels of shopping around

When exploring individuals' borrowing it was clear that there had been limited shopping around either within borrowing product categories or across different categories. This seemed to be based on the individual making assumptions about their credit options, out of a desire for convenience or due to a lack of understanding/awareness of there being any benefit to shopping around. Fear of being turned down also emerged as a deterrent to shopping around, as consumers frequently reported choosing a provider they thought would lend to them.

Where shopping around did happen, this was usually limited to a quick look at rates on a comparison site, and only within a single product category rather than a wider exploration of alternative options. The few who had shopped around tended to stick to familiar products and providers, again within a single category. Those who were shopping around, even on a limited basis, reported that their change in behaviour was a result of difficult credit experiences in the past having led to greater consideration.

Low understanding and consideration of interest rates or the total cost of borrowing

The research revealed that, in most cases, the absolute cost of borrowing was not the most important driver in the decision to take out a credit product. Generally across the sample, there was low understanding of interest rates including amongst those who appeared to have greater financial experience. Factors such as flexibility, control and the ability to be able to afford the weekly or monthly repayments (as well as the likelihood of being accepted) had a greater role to play in the decision.

Expectations and assumptions about the ability to pay in future

Although in this research a focus on weekly/monthly affordability rather than on total cost of borrowing was observed, many in the sample recognised that they had had unrealistic expectations about their ability to pay back from the outset. This was particularly true in the case of credit products that offered interest free periods, such as some credit cards, Hire Purchase Agreements and Buy Now Pay Later deals. A focus on the immediate need for cash or goods was commonly the key factor, overriding all other considerations.

Encouragement from lenders to borrow

The research uncovered several examples of lenders encouraging consumers to borrow, convincing them of the benefits of the credit option being offered. Scenarios consumers found most difficult to resist tended to involve face to face interaction; home credit, store cards and store credit cards. From the perspective of the consumers, the benefits of credit put forward by lenders included

- *'It will help your credit rating'*
- *'A safety net'*
- *'Good to have it as an option'*
- *'You can afford it'*

One participant gave an example of being offered a store card. When she asked what was involved – from her perspective she was asking about the terms and conditions – she was told *'don't worry, it's easy, we'll do it all for you',* as though her question had been about the application process. Users of home credit reported agents starting to talk about the next loan before the current loan had come to an end. Where follow on loans were not taken, customers reported receiving frequent letters and phone calls offering further credit.

In addition to face to face interactions where lenders approached consumers in person to offer credit, there were also several examples of consumers having received SMS messages offering instant credit, mainly from payday loan and home credit companies.

Little interest in 'small print' or in the approval process

While across the sample a common theme was a desire to be approved for borrowing, there was little evidence of any interest in or questioning of how or why individuals were approved or refused for credit. For many, the only thing that mattered was being accepted. This, coupled with a fear of being rejected, often worked against any notion of shopping around, as most participants talked about choosing providers/products specifically because they were confident they would be accepted. Most were unable to recall exactly what information they had needed to provide or were provided by the lender at the time of application. Most also reported that they did not read terms and conditions. This applied both areas beyond just borrowing. Almost everyone claimed to dislike 'small print'.

Across the research it emerged that the factors contributing to over-indebtedness were more prevalent where vulnerability factors were present. Generally, the impact of the contributing factors was exacerbated in the case of more vulnerable consumers.

4.5.4 Fragmented borrowing

The final and arguably most influential contributor to over-indebtedness was fragmented borrowing. This section provides more detail about what is meant by fragmented borrowing and how it can lead to over-indebtedness and potentially to negative consequences for the consumer.

The research uncovered numerous examples of consumers having acquired multiple small 'pots' of borrowing. Each pot in isolation tended to be manageable; problems usually arose once the total number of pots led to an unsustainable level of repayments. This situation had often built up over a period of time, exacerbated by the fact that some of the borrowing was not considering as borrowing. This meant that when consumers were asked to confirm their existing credit obligations, items would often be left out or forgotten until prompted. As such, consumers often had no visibility of their total level of indebtedness. This seemed to have two consequences:

1. From a consumer perspective:
    - Easy to be in denial about levels of borrowing
    - No compelling reason not to take on more borrowing
2. From a lender perspective:
    - No visibility of an individual's existing commitments
    - Reliance on applicants to disclose commitments when some items may not be recognised

Some forms of credit such as mortgages, payday loans, budgeting loans and loan sharks were universally understood to be borrowing – captioned in fig. 9 below as undisputed borrowing. Others, such as catalogues, rent to own, overdrafts and buy now pay later facilities, were often not seen as borrowing. As a result, these were not always taken into account when participants were thinking about their total indebtedness. The figure below illustrates the extent to which different credit products were seen as borrowing;

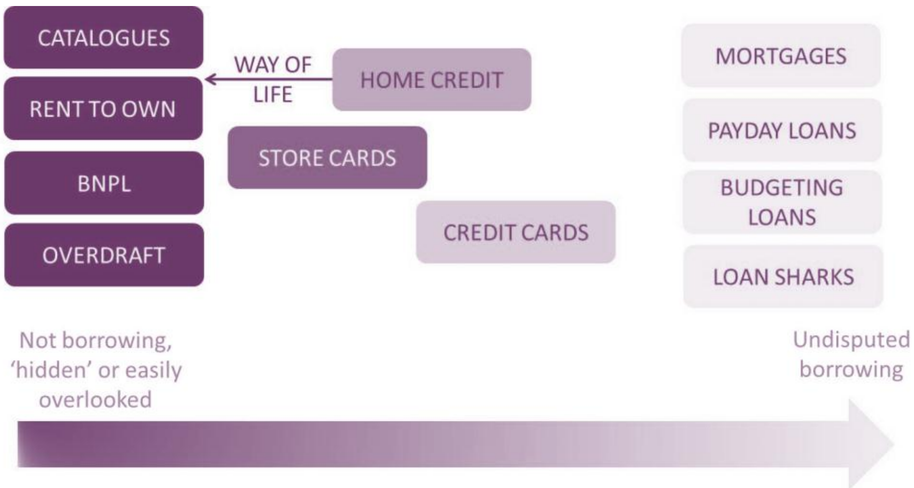


Fig. 9 Shades of recognition of borrowing

4.6 Negative consequences of over-indebtedness

Despite the fact that all of the participants in the research had been over-indebted at some point in their borrowing history, consumer recognition of having suffered any type of negative consequence, financial or emotional, was relatively rare. Where there was recognition, this was usually in hindsight following significant debt problems rather than while actively using credit.

4.6.1 Indicators of potential negative consequences

The figure below shows the indicators of potential negative consequences uncovered by the research;

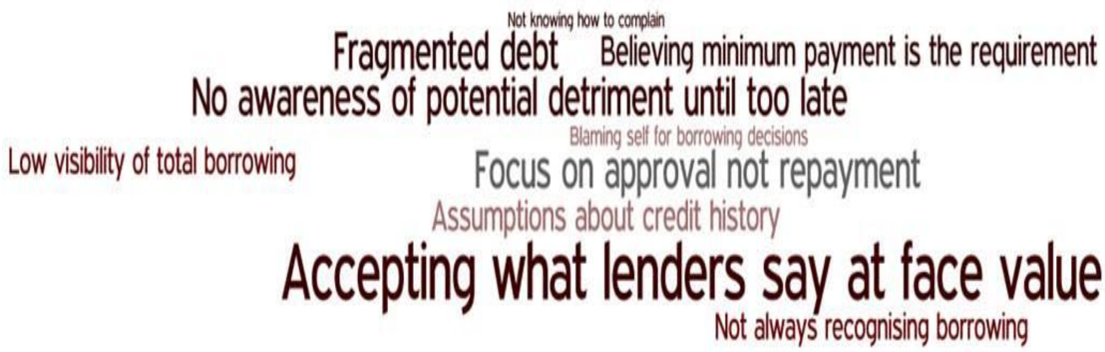


Fig. 10 Indicators of potential negative consequences

4.6.2 Consumer recognition

Very few participants in the research had explicitly recognised suffering any negative consequences as a result of borrowing choices they had made. This was especially true when it came to recognising financial consequences, while any negative emotional consequences were generally more readily acknowledged. It is worth noting also that where any kind of negative consequences were recognised, there was a high degree of self-blame rather than a sense that any aspect of specific credit products, communications or processes were being held accountable. One exception to this was a widespread view amongst all but the most financially stretched that credit had been was too easy to obtain and that some lenders did not do enough to make sure that applicants could afford the requested borrowing.

In the sample, the consumers who were most likely to recognise any negative consequences were those who had greater financial experience and confidence managing money, and/or had experienced debt problems that had led them to examine their borrowing more closely. As such, the recognition that they had paid too much interest or incurred higher than expected charges usually came about with the benefit of hindsight. Many were then able to recognise that their focus on approval and short term affordability at the time of take-out had led to other factors being overlooked.

The emotional consequences of over-indebtedness took different forms; anxiety, depression, inability to sleep or concentrate, loss of confidence, lack of self-esteem, feelings of shame and guilt, self-deprecation and in one case thoughts of suicide. Some reported relationship difficulties caused by arguments about money generally and debt in particular. Several individuals confessed to hiding the extent of their debt problems from friends and family. In some cases where individuals were interviewed who had been diagnosed with, and were receiving treatment for, mental health issues, it was not always clear whether their illness had led to poor credit choices and behaviour or their financial situations had exacerbated their condition.

4.6.3 Observed negative consequences

This section details examples of negative consequences observed during the research. A number of potential issues were identified where consumers did not themselves appear to be aware of any negative consequences. In many interviews the emotional impact of coping with over-indebtedness was evident to the researchers, whether or not it was articulated.

Minimum payments

The most significant indication of individuals being at risk of suffering financial loss was related to minimum payments. Managing to meet minimum repayments was widely seen as acceptable, and additionally there was a widespread perception that the minimum payment was the amount they were supposed to pay. Although some participants had been in the habit of paying off more when they had previously been earning more, there was very little awareness across the whole sample of the consequences of paying off less. Where any reference was made to the consequences of making minimum payments, this usually related to expecting to be paying off the debt for longer rather than paying more interest.

Missed payments

Awareness of the consequence of missed payments was more variable depending on the type of product used and the response from the lender. Some had experience of banks and credit card companies applying penalties and charges as soon as a payment was missed, which gave them a greater understanding of the conditions of their product. However, home credit and payday loan companies were often seen as accommodating of missed payments. In these cases the individuals' expectations had generally been that they would be making repayments for longer, rather than paying more back overall, with no-one recalling having been told about any extra interest being payable.

Buy Now Pay Later or Interest Free deals

It was also observed that in some instances Buy Now Pay Later and other interest free deals had caused confusion, with many individuals appearing to have not understood when interest would become payable, and at what rate, until the interest was applied.

Consumers not seeing some forms of credit as borrowing

When using catalogues and online credit accounts, interest was sometimes not recognised at all. Some consumers believed that catalogues charge higher prices rather than credit interest, and both catalogue and online credit accounts were more often regarded as spending or purchasing methods rather than borrowing.

Other areas of observed negative consequences

In addition to the above, some of behaviours discussed in Section 4.5.3 Contributing Factors and Section 4.9 Shopping Around could also lead to negative consequences e.g. low levels of shopping around, less focus on interest rates and the absolute cost of borrowing. As evidenced with the Survival borrowers, some consumers experienced pressure from lenders to take out further borrowing when their ability to repay was limited.

4.7 Help with debts and over-indebtedness

Awareness of sources of help and guidance were generally low across the sample; in most cases where help had been received this was a result of the individual having been referred rather than self-directed.

Friends and Family

For some, friends and family were the first port of call after running into difficulty, although this option was not available to all. Feelings of shame, guilt and embarrassment were a common barrier, as well as not wanting to place financial pressure on others. Some did not have anyone they felt they could turn to, others said that their friends and family were in a similar situation, or did not have the means to help, and others felt a strong moral duty to sort out their own problems without involving others.

Charities

The only charity mentioned with any regularity by those who had not received help was the Citizens' Advice Bureau (CAB), and this recognition was more often in the context of general advice rather than debt or money advice. Some of those who had experience of CAB for whatever reason commented that it was difficult to get an appointment and that waiting times were long. A small number of participants – eight to ten across the sample – recalled having seen Money Advice Service advertisements in the weeks prior to the research. Of those who had received help or advice, this was mainly from CAB or Step Change.

Lenders
Although some of the participants in the research had contacted lenders either before or after getting into difficulty, most reported having had negative experiences. Many felt that the lender had been unsympathetic, inflexible and unwilling to find a solution, for example by suspending interest or extending the term of borrowing. This experience was most commonly reported by those who had contacted banks, credit card companies and catalogues. One participant had panicked having been told by her bank that her case would be referred to debt collection; she made no further attempts to negotiate a solution after this, and felt that she had been treated unfairly.

In contrast, home credit providers were cited by users as being approachable, flexible, sympathetic and non-judgmental. As such, users were more inclined to contact them if they got into difficulty.

Debt Management companies
Awareness of debt management companies was very low across the research. One individual had used Clear Debt and was on a repayment plan with them, but was unclear as to the basis on which help had been provided. She appeared to believe the service was free, and did not know how much she was paying each month, or what the outstanding balance of her debts was.

4.8 Complaints

No one in the sample had complained to or about the lenders they had borrowed from, despite many having suffered negative consequences of one sort or another at some point. For the most part, complaining did not seem to be on the radar. On probing, there appeared to be three clear barriers to making a complaint;

No perceived grounds for complaint
Many of the research participants who had recognised having some sort of negative consequences blamed themselves for their situation, and were unable to identify what part the lender or the product might have played in their problems. This was particularly true when they were trying to deal with their issues; some had recognised later that the lenders may have had some responsibility, but by then often felt it was too late to do anything about it.

Low awareness of how to complain
Closely related to the last point, when asked how they would go about making a complaint, most said they would not know where to start. Most said they did not know whether or not their lenders had a complaints department and aside from a small number of more financially experienced consumers who thought it might be possible to complain to the Ombudsman, most did not know of any other organisations they could complain to.

Perceived futility of complaining

The perceived balance of power between the lender and borrower was such that most participants in the research did not feel that complaining would be likely to have any impact. This was especially true for individuals who had tried to talk to their lenders when facing debt problems and found this to be a negative experience. The commonly held view was *'what's the point?'* This appeared to be compounded by low confidence, self-blame and a negative perception of lenders generally.

4.9 Shopping around

The research revealed that most of the participants were not assessing their credit options based on the absolute cost of the borrowing. Factors such as being accepted and being able to afford repayments, as well to a lesser extent flexibility and control, were more important when making their decision. As such, there was very little shopping around by consumers. Barriers to shopping around were often exacerbated by consumers' perceptions of having very few options.

The research highlighted seven key reasons why consumers did not shop around:

Shopping around not on the radar – the participants in the research rarely mentioned shopping around spontaneously. It is not something they had thought about doing.

Credit often sold rather than bought – many in the research had taken credit as a result of being offered it; only a small number had been or were still actively looking to borrow.

Little perceived value – when challenged, most felt that there was little difference between lenders in any given category. Most did not think of looking outside of the categories they were familiar with.

Lenders hold all the cards – assumptions about poor credit ratings and history were common, leading some to feel grateful for any credit they could get. The balance of power was seen very much to be in favour of the lenders, who could choose who to lend to. There was no sense of consumers having a similar choice of who to borrow from.

Focus on getting approval – closely linked to the point above, where credit was sought, being approved and getting the money or access to goods became the key focus, overriding any other considerations.

Little experience of and a lack of skills for shopping around – very few of the participants had ever shopped around for credit, usually within a single category. Typically, shopping around – if done at all – consisted of checking rates on a comparison site or asking others for a recommendation.

5 Conclusions

5.1 Key findings

Consumers on low income are particularly vulnerable to problem debt, due to their household situation and experience of financial products. This was driven by multiple factors.

Pressure on household budgets: For those on the lowest incomes mean that in many cases there is insufficient income to cover living costs *and* service debt beyond making minimum payments in the hope of keeping everything ticking over.

Low financial experience and confidence: When struggling to meet financial obligations, many try to 'muddle through' rather than address issues earlier, potentially meaning their situation can get worse.

Furthermore, **low awareness of where and how to get help** coupled with **feelings of guilt and responsibility** for the situation means that few seek advice.

While some credit products appear to be more likely to lead to negative consequences for consumers than others, other factors such as **repayment behaviour, fragmented borrowing and low visibility of total borrowings** can sometimes lead to consumers being unable to meet all their repayments each month and hence incur some degree of financial loss and/or negative impact on emotional wellbeing.

At the same time, financial loss or the potential for financial loss is rarely recognised until after problems have occurred. For example, the link between making minimum payments, skipping payments and incurring more interest is understood only by a minority. Such understanding is usually achieved as a result of being forced to confront debt problems, for example as a result of creditor intervention such as debt recovery.

In the research very few examples emerged of regular or substantial interaction between lenders and consumers, and little in the way of relationships, either in terms of depth or breadth. Most participants in the research had a very limited repertoire of financial services providers, and in the case of credit, had returned to the same lenders for most of their borrowing needs.

Apart from those in the sample who were or had previously been at the top end of the low income bracket, there was a clear dichotomy in perceptions of more 'mainstream' lenders such as banks and credit card companies, compared to home credit and payday lenders.

Banks were seen by most as inflexible, uncaring and impersonal. This was driven in part by a lack of familiarity amongst some participants who had very limited (if any) banking relationships, and in part by negative personal experiences amongst those who had tried and failed to get help from their bank when having difficulty meeting financial commitments.

Home credit and payday lenders in contrast were seen by those who used them as friendly, accessible and flexible. In this context, flexibility often meant accommodating late or missed payments. This flexibility was frequently perceived as a willingness to extend the term, with little recognition on the part of the borrower of any financial consequence to the new arrangement.

There was a degree of contradiction in terms of what consumers felt they wanted from lenders going forward. While almost everyone said that credit should be more difficult to get, and that more checks should be made to ensure consumers could afford to borrow, many did not know how they personally would cope if they no longer had access to credit. When asked to imagine what they would have done had the credit not been available to them, responses ranged from 'panic', to trying to cut back further on living costs, to using forms of borrowing they would not otherwise have considered, such as loan sharks.

Some in the sample, especially those who were on repayment plans or otherwise struggling with too much debt, felt that consumers needed to do more to help themselves. For example respondents suggested that people should not borrow unless they were sure they could afford it, and that if they thought they could, they should challenge this assessment before actually committing to anything.

Several ideas were put forward as to how lenders could help ensure that customers did not take on credit they couldn't manage. These suggestions were made by those who had experienced significant problems and were now more reluctant to borrow as a result. Those who felt they were coping did not always feel that anything needed to change. Suggestions included;

- **Conducting more thorough credit checks** – there was a perception that more account should be taken of existing borrowing when taking on new debt
- **Checking the applicant's ability to make the repayments more carefully** – there was a belief that some lenders, particularly home credit and payday lenders, did not attempt to check income levels. Some admitted to having given inflated income figures in order to borrow more, knowing that their claim would not need to be verified
- **Insisting on a waiting period before issuing loans** – many felt that loans should not be available on the spot, or instantly, forcing applicants to be sure they wanted to go ahead
- **Putting the onus on the customer to decide whether or not they could afford the loan** – while this appears contradictory to the first two suggestions, on probing it

became clear that the underlying intent was to prevent lenders from attempting to convince customers that they could or should take the product they were being offered; in other words, lenders should not be offering credit but should wait to be approached

- **Providing a clear break down of the total cost of the borrowing before the loan was agreed** – this including spelling out clearly at point of sale what would happen in terms of any additional interest if the customer made late payments or missed any payments. In the case of interest free/Buy Now Pay Later offers, the implications of not paying within the specified time limit also needed to be made clearer. Some felt that this could be achieved using a check list or question and answer format to ensure customer understanding, rather than relying on the customer reading the terms & conditions of the credit

5.2 Consumer regulatory suggestions

Most of the participants in the research had little experience of the FCA or its remit, and as such found it difficult to say what the Regulator could or should do to ensure lenders treated consumers fairly. One suggestion made by a number of individuals was the idea of a universal cap on borrowing interest rates. This suggestion was frequently made in conjunction with a comment that payday lenders were charging much more interest than other providers. This perception appeared to be influenced by media coverage of payday loans more often than by personal experience. When asked what the universal cap should be, few were able to give an answer. Those who tried to give a figure generally said that interest should be no higher than 20-25%.

Although the idea of a universal cap was the only suggestion put forward specifically as something for the Regulator to consider, some of the suggestions for lenders would need to be supported or enforced in order to be effective. In particular this would include;

- More stringent affordability checks
- Greater visibility on an individual's total borrowing
- A cooling off period before receiving funds, prohibiting immediate access to cash e.g. via home credit and payday loans
- Restrictions on loans being offered to customers not looking to borrow/for further credit
- The need to ensure that key terms & conditions, including the consequences of late or missed payments, are understood before the product is taken out
-

6 Glossary

'Enabler' borrowing or using credit to 'enable': An example of 'enabling' credit would be borrowing to set up a small business or self-employment i.e. using credit to improve someone's wider financial situation

Financial experience: Experience of a combination of situations including the number/range of different financial products held currently or in the past and how much contact has been had / level of comfort interacting with providers. In addition, an ability to understand how products work and the consequences of borrowing decisions

Less mainstream lenders: Smaller or non-financial institutions offering credit that is more often taken by and more accessible to those with lower income. Examples include home credit, store cards, catalogues, HPA/BNPL, PDLs and logbook loans

Lifestyle Borrower: Often have multiple and fragmented borrowing, with relatively small total amounts/ repayments, tendency to not perceive some credit used as borrowing and often getting by making only minimum payments therefore may feel they are able to manage credit

Low income households: (in this research) Households with an annual household income of between £11,000 and £19,000 (or less)

Mainstream lenders: Banks and larger financial providers offering credit products that are more often commonly used by and accessible to those on higher incomes, for example mortgages, bank loans, credit cards and overdrafts

Minimum wage: Minimum wage is the lowest hourly wage an employer is required to pay an employee

Money management confidence: Ability to budget and manage money or limited resources on a daily, weekly or monthly basis

Reluctant Borrower: often acquired credit when better off, having then experienced now or in the past a loss of income/change in circumstances leading to inability to meet obligations. More likely to have higher financial capability than other borrowers in the sample, but due to past experiences and assumptions around credit acceptance they do not plan or want to borrow now/in future

Survival Borrower: Often lower income consumers who are borrowing to supplement income, have no option but to borrow and tend to have low confidence and capability

Zero hours contracts: The term 'zero hours' is not defined in legislation, but is generally understood to be an employment contract between an employer and a worker, which means the employer is not obliged to provide the worker with any minimum working hours, and the worker is not obliged to accept any of the hours offered.

7 Technical Appendix

Introduction

This technical report is designed to provide the full technical details of the project (including greater detail than in the main research report). This document covers the background to the research, sample, recruitment and approach.

Key criteria for sample design

This section includes details on the defining criteria used to select consumers to take part in this research. This includes the following criteria areas; vulnerability and income, demographics, credit products held and attitudes towards borrowing, sample size and locations.

The following sample criteria were specified and quotas defined before recruitment, these were then monitored during recruitment. A table showing the final sample breakdown is included in figure TA3 on page 69.

Vulnerability and Income

In order to provide some guidance for future regulatory decisions, the research needed to provide an understanding of any vulnerability factors that might impact on their borrowing decisions or increase their likelihood of financial detriment. From a research perspective it was decided not to identify consumers as vulnerable as part of the screening process.

Income was used as a proxy for this research, to help identify vulnerability factors amongst consumers using credit. This was due to a likelihood of having various factors, making them susceptible to detriment. The chosen sample structure defined 'low income' consumers as those within the bottom 10-15% of income brackets (approx. £145 - £461 weekly depending on status and number of dependants) of the general population.

Other demographics

Across the sample a mix of ages between 23- and 65+ and a balance of genders was recruited. Specific quotas were also set to ensure broad coverage of family composition and life stages, as this can have an impact on the type of credit products used and the triggers for use. Additionally in order to ensure a spread of circumstances the sample was recruited to include a mix of employment and benefits status; full time, part time, single income households and those on benefits.

Credit products held and attitudes to borrowing

All consumers included in the sample held at least one credit product at the time of the research; a range of different products were represented across the sample as a whole.

It is important to note that the research showed how some credit products are not always remembered by consumers as being held or recognised (at least initially) as credit/borrowing. As such the sample numbers are indicative and represent only the products participants reported at the time of recruitment. Past borrowing, and any current use of credit not mentioned by the participant at the recruitment stage, was uncovered and discussed during the interviews. A table showing the overall mix of users of different credit products as captured at recruitment is shown below;

Current credit products (stated in recruitment)	**Total number**
Credit cards	**15**
Retail catalogues	**14**
Personal loans	**11**
Home credit loans	**11**
Store cards	**9**
Current account overdrafts	**6**
Hire Purchase Agreements	**5**
Other loans	**5**
Credit union loans	**3**
Payday loans	**2**
Logbook loans	**0**

Fig. TA1: total (stated) credit products currently held across the sample

Participants also represented a range of views about access to credit, from ‘very easy to borrow’ to ‘very difficult to borrow’.

Screening questions were used to ensure a spread of different feelings about current personal levels of debt, from ‘I feel completely in control’ to ‘my borrowing is completely out of control’. A number of participants included had received debt advice and some were either in or had previously been on a debt management plan.

Sample size and locations

A challenge for this research was to capture an in-depth understanding of low income consumers' credit experiences and journeys that was inclusive, unbiased and comprehensive. The sample structure comprised **33 interviews** to provide a level of robustness, whilst achieving time and cost efficiencies.

A research requirement was to include a representation of low income consumers from across the four nations. Using prior knowledge of financially deprived areas locations were selected that had high and identifiable pockets of poverty/deprivation, based on demographics, housing, industry and employment levels. Six locations were chosen from across the UK; London, the Welsh Valleys, Nottingham, Newcastle, Glasgow and Belfast. The number of interviews completed in each of these locations is shown in the figure below;

Fig. TA2: – Number of interviews in each location across the UK

Recruitment

This section outlines how respondents were recruited in order to meet the sample criteria. This includes the full screening questionnaire with all questions and instructions for recruitment.

Specialist qualitative recruiters with particular expertise in 'harder to reach' and vulnerable audiences were deployed to find suitable consumers to participate within the selected locations. Using a combination of knowledge of the local area and a mix of face to face and telephone methods, recruiters were able to target consumers for this research.

In order to assess income the recruitment team used a matrix provided by the Financial Conduct Authority that took into account family and household composition and current weekly household income. This was used as a 'look up' tool to compare what consumers reported earning/receiving in benefits with the stated composition of their household. The matrix was developed based on income data from the Institute of Fiscal Studies.

People working in marketing/market research, advertising, journalism or financial services, as well as those who had taken part in either a lot of or very recent market research were excluded from the research on the basis that their responses were likely to be influenced by their knowledge and experience. The recruitment screening questionnaire used to assess the key criteria is shown below;

Standard profiling/demographics questions:

D1 SEX		D7 HOW MANY PEOPLE IN YOUR	
Male	1	HOUSEHOLD	
Female	2		
		Write in	
D2 AGE			
18-24	1	D8	
25-44	2	WHO IS THE CHIEF INCOME	
45-54	3	EARNER IN THE HOUSEHOLD. IS	
55-64	4	IT …	1
65+	5	Yourself	2
		NB Other	
Please write in actual age __			
		D9 HOUSEHOLD MAY NOT BE	
		WORKING	
D3 SOCIAL CLASS			
AB	T&C	OCCUPATION OF CHIEF INCOME	
C1	T&C	EARNER	
C2	1	D10	

DE	2		
D4 MARITAL STATUS			
Married/cohabiting	1	PROBE TO OBTAIN QUALIFICATIONS OF CHIEF INCOME EARNER. Qualifications	
Single	2		
Wid/Sep/Div	3	D11 (if none state 'none')	
D5 CHILDREN (under 18 at home)			
Yes			
No	1		
	2		
D6 AGES OF CHILDREN AT HOME **(record how many in each age bracket)**		D12 TYPE OF INDUSTRY/FIRM OF CHIEF INCOME EARNER	
0-7			
8-12	1		
13-16	2		
17-18	3	NUMBER OF STAFF CHIEF INCOME EARNER IS RESPONSIBLE FOR	
	4		

Full screening questionnaire

INTRODUCTION Good morning/afternoon/evening, my name is …. From Optimisa Research, we are conducting some research to learn more about people's finances and how they borrow money. We're doing this work on behalf of the Financial Conduct Authority; this organisation was set up by the government to make sure that financial companies treat consumers fairly.

Q1 Firstly, can I just check if you or any members of your family or friends work or have ever worked in any of the following industries?	(M)	
Marketing	1	
Market Research	2	
Advertising	3	
Journalism	4	
Financial services (i.e. banking, insurance or financial adviser)	5	T&C
--	----	-----
None of these	6	Q2
T&C – THANK YOU FOR YOUR HELP SO FAR BUT UNFORTUNATELY ON THIS OCCASION I AM NOT ALLOWED TO INTERVIEW ANYONE WHO WORKS IN THAT PARTICULAR INDUSTRY		

Q2	And have you attended any discussions for the purpose of market research during the past 6 months?	(S)	
	Yes	1	T&C
	-------	----	-----
	No	2	Q3
	T&C – THANK YOU FOR YOUR HELP SO FAR BUT UNFORTUNATELY ON THIS OCCASION I AM NOT ALLOWED TO INTERVIEW ANYONE WHO HAS ATTENDED ANY DISCUSSIONS FOR THE PURPOSE OF RESEARCH DURING THE PAST 6 MONTHS		
Q3	How many group discussions for the purpose of market research have you ever attended?	(S)	
	None	1	
	1	2	
	2	3	
	3	4	Q4
	-------	----	------
	4	5	T&C
	5	6	
	T&C – THANK YOU FOR YOUR HELP SO FAR BUT UNFORTUNATELY ON THIS OCCASION I AM NOT ALLOWED TO INTERVIEW ANYONE WHO HAS ATTENDED MORE THAN 3 GROUP DISCUSSIONS		
Q4	**We're now going to ask a few questions concerning financial products you may or may not have…** Do you have a current account or basic bank account?	(S)	
	Yes	1	
	------	---	
	No	2	
	Don't know	3	
	NO MORE THAN 1 RESPONDENT PER LOCATION TO HAVE NO CURRENT ACCOUNT		
Q5	Which of the following do you currently use? [SHOW CARDS]	(M)	
	Current account overdraft	1	
	Credit Card	2	
	Store Card	3	
	Retail Catalogues	4	
	Hire Purchase agreements	5	
	Personal loan	6	
	Payday loans	7	
	Home credit loan (e.g. Provident)	8	
	Logbook Loan	9	

	Credit Union loan	10	
	Other loan (friends/family, loan shark or other not a mortgage)	11	
	-------------------	---	----
	None of these	12	Q5a
	ALL TO HAVE AT LEAST ONE OF CODES 2-11, IDEALLY SEVERAL. IF THEY HAVE CODED 1 THEN IT MUST BE OVERDRAWN (AUTHORISED OR UNAUTHORISED)		
Q5a	We are actually looking for people who have some of these financial products. However, we may want to do some research in the future with people who don't have any of these. Would you be willing for us to keep hold of your details and contact you at some point in the future?	(S)	
	Yes	1	Q10a
	------	---	----
	No	2	T&C
Q6	Thinking about all the different ways of borrowing money (excluding friends, family and loan sharks), which of the following best describes how you feel about how easy it is to borrow?	(S)	
	Very easy to borrow	1	
	Somewhat easy to borrow	2	
	It depends on the situation	3	
	Minor challenges	4	
	Very difficult to borrow	5	
	AIM FOR A SPREAD OF VIEWS ACROSS THE SPECTRUM 1-5		
Q7	And thinking about your own borrowing, which of the following best describes how you feel about your own level of debt?	(S)	
	I feel completely in control of my borrowing, and have nothing to worry about	1	
	I have a little more debt than I am comfortable with but I can just about cope	2	
	I am quite worried about how much I owe	3	
	I feel that my borrowing is completely out of control	4	

	AIM FOR A SPREAD OF CODES 1-4 ACROSS THE SAMPLE. ONLY ONE RESPONDENT WITH 1 PER LOCATION.		
Q8	Can I check if you have or have had any experience of the following, now or in the past:	(M)	
	Bank closing down your current account	1	
	Bankruptcy	2	
	Debt Relief Order	3	
	IVA (Individual Voluntary Arrangement)	4	
	Court order	5	
	Re-possession order	6	
	Debt Repayment plan	7	
	Debt Management Plan (DMP)	8	
	Debt advice (CAB, Step Change etc.)	9	
	------------------	----	----
	None of these	10	T&C
	IDEALLY A GOOD MIX OF CODES 1-9 ACROSS THE SAMPLE. NO MORE THAN 1 RESPONDENT PER LOCATION TO HAVE CODE 5-6 CURRENTLY ACTIVE. IDEALLY AT LEAST 4-6 CONSUMERS TO USE/HAVE USED DEBT MANAGEMENT SERVICES OR TAKEN DEBT ADVICE (CODE 9)		
Q9	Are there any dependent adults living at home?	(S)	
	Yes	1	
		2	
	No		
Q10	Finally, so we can make sure we speak to a range of people, can we please ask – whether you earn more or less than the total weekly HOUSEHOLD income (including any earnings, benefits/credits, and pension income) displayed [SHOWCARD OF MATRIX BELOW] *NOTE TO RECRUITERS. TAKING INTO ACCOUNT NUMBER OF CHILDREN AND AGES, PLUS NUMBER OF DEPENDENT ADULTS IN HOUSEHOLD IF APPLICABLE, PLUS RESPONDENT'S ESTIMATE OF WEEKLY **HOUSEHOLD** INCOME, USE THE MATRIX BELOW TO MAKE SURE THEIR INCOME DOES NOT EXCEED THE LEVELS BELOW – IT DOESN'T MATTER WHETHER THIS INCOME IS SALARY, BENEFITS/TAX CREDITS OR A MIXTURE. FOR EXAMPLE, A SINGLE PARENT WITH TWO CHILDREN UNDER 14 SHOULD HAVE A WEEKLY INCOME OF NO MORE THAN £232 TO QUALIFY FOR THE STUDY. PLEASE REFER TO OPTIMISA PROJECT MANAGER IF ANY QUESTIONS/CONCERNS*	(S)	
	More	1	T&C
	-----------	----	----
		2	Rec

					Less	
MATRIX: Weekly income	**No child**	**1 child <14**	**2 child <14**	**3 child <14**	**2 child 15-18**	**3 child 15-18**
Single/Lone parent	£ 145	£ 188	£ 232	£ 260	£ 288	£ 319
Couple	£ 216	£ 260	£ 303	£ 346	£ 359	£ 373
Couple and dependent adult	£ 267	£ 321	£ 374	£ 428	£ 444	£ 461

Key for terms:
(S) - Single code response
(M) - Multi coded response
T&C - Thank and close – does not meet criteria
Rec - Recruit - meets criteria

Further observations from the final sample

Information is provided here on the key sample observations and classifications which emerged throughout the research and analysis and were fully defined.

Vulnerability

As hypothesised a number of vulnerability factors were found in the research sample where consumers whose personal circumstances, health or levels of indebtedness meant that they were currently or had previously been financially vulnerable. In other words, although participants may have been managing to cope day-to-day, many were susceptible to losing financial control if anything negative were to happen (e.g. loss of income, change in household composition). Across the sample, there was a spectrum of vulnerability, ranging from those who felt their situation was relatively stable to those who were vulnerable to even the smallest change. It is important to note that almost everyone interviewed felt they had no or very little capacity to accommodate any degree of unforeseen additional expenditure. The indicators of vulnerability within the sample can be grouped into **five areas**;

Earning capacity

Some had been unemployed for a long time e.g. more than 5 years, whilst others were in unstable employment e.g. coming to the end of apprenticeships with no guarantee of full time paid work, working in industries with unpredictable or fluctuating earnings such as construction, factory shift work, and casual or self-employment. A number of the participants had been made redundant, had their hours reduced or lost small businesses and were struggling to make ends meet as a result. Several had long term illnesses (physical and/or mental health issues) which made it difficult and sometimes impossible for them to find or stay in work.

Benefit status

For those on benefits, many had experienced cuts, making it harder to live on what they received. The introduction of the bedroom tax had also increased pressure on the household budget, especially where this had coincided with a change in household composition leading to a ‘dual squeeze’ of reduced income and increased outgoings.

Support network

Many in the sample had no or weak informal support networks as a result of divorce, separation, estrangement (in some cases from a young age) and social isolation, particularly in the case of those with mental health issues.

Literacy and numeracy skills

Several examples of poor literacy/numeracy were observed. Some participants reported a general loss of confidence as a result of negative life events, especially after loss of employment and relationship breakdowns. Although some appeared to be very confident and capable of managing very small sums of money day to day, many reported feeling less confident handling larger sums/managing bank accounts/managing finances more conceptually. Withdrawing benefits/earnings promptly and dealing entirely in cash was especially evident. Two or three found budgeting very difficult (due to limited finances and confidence), often having no money for food or heating.

Miscellaneous

A number of other indicators of vulnerability were uncovered such as crime e.g. shoplifting, fraud, and theft to supplement income. Substance abuse was evident in some of the (predominantly younger) participants. There were instances of 'inherited' debts i.e. where a partner had left, clearing out available funds from the household account and leaving debts such as overdrafts, loans and credit card debts. In some cases participants reported not having known about (the extent of) these debts.

Borrowing Typologies and negative consequences

Analysis of the sample and the information gathered about borrowing behaviour led to the identification of three 'borrowing typologies' or states that consumers found themselves in and moved in and out of over time; **Survival borrowing, Lifestyle borrowing and Reluctant borrowing**. These typologies are not segments nor are they permanent states. Many participants had moved between the three typologies at different points in their financial lives/borrowing journeys. Relative affluence had a strong impact on which borrowing typology an individual exhibits at any given point in time, but other factors played a part.

Additionally the research uncovered various degrees of and/or the potential for loss, either emotional or financial (currently or in the past). This was sometimes stated or also in some cases appeared to have been the case (i.e. observed or likely). It should be noted however that it is not possible to wholly determine whether or not actual loss had been experienced, therefore this information should be taken as indicative and subjective only.

Overview of the Final Sample

The table below provides an overview of the sample; purple columns indicate pre-defined criteria and grey post-defined information;

Location	Gender	Life stage	Household income/week	Working status	Borrowing Typology	Stated/potential consequences (now/past)
Glasgow	Female	Older family	£260	Part time	Lifestyle	Financial
	Male	Older family	£230	Full time	Reluctant	Financial
	Male	Younger family	£250	Not working	Reluctant	Financial & emotional
	Female	Empty nester	£144	Not working	Lifestyle	Financial & emotional
	Male	Pre family	£130	Self employed	Reluctant	Financial & emotional
London	Female	Older family	<£300	Not working	Reluctant	Financial & emotional
	Female	Empty nester	£220	Retired	Reluctant	Financial & emotional
	Female	Older family	£200	Not working	Lifestyle	Financial & emotional
	Female	Younger family	<£200	Not working	Lifestyle	Financial & emotional
	Female	Pre family	£355	Full time	Lifestyle	Financial loss
	Female	Pre family	£355	Full time	Reluctant	Financial & emotional
Newcastle	Male	Pre family	£130	Full time	Lifestyle	Financial
	Male	Empty nester	£202	Retired	Reluctant	Financial & emotional
	Female	Younger family	£260	Not working	Survival	Financial & emotional
	Female	Empty nester	£145	Retired	Reluctant	Financial & emotional
	Female	Older family	£188	Not working	Lifestyle	Financial
	Female	Younger family	£260	Not working	Survival	Financial & emotional
The Valleys	Female	Pre family	£201	Part time	Lifestyle	Financial
	Male	Empty nester	£250	Not working	Reluctant	Emotional
	Male	Older family	£221	Full time	Survival	Financial & emotional
	Female	Pre family	£73	Not working	Lifestyle	Financial
	Female	Younger family	<£192	Not working	Lifestyle	Financial & emotional
	Female	Empty nester	£214	Retired	Reluctant	Financial & emotional
Belfast	Male	Pre family	£112	Not working	Survival	Financial & emotional
	Female	Empty nester	£195	Not working	Reluctant	Financial & emotional
	Female	Older family	£173	Part time	Lifestyle	Financial & emotional
	Female	Younger family	£150	Full time	Lifestyle	Financial & emotional
Nottingham	Female	Younger family	<£260	Not working	Reluctant	Financial & emotional
	Male	Younger family	<£260	Full time	Reluctant	Financial & emotional
	Female	Older family	<£188	Not working	Lifestyle	Financial
	Female	Pre family	<£145	Not working	Survival	Financial & emotional
	Female	Empty nester	<£145	Not working	Reluctant	Financial & emotional
	Male	Pre family	<£125	Full time	Survival	Financial

Fig.TA3: Final sample breakdown showing key criteria and borrowing typologies or states, and potential detriment

Approach

This section provides information on the type of interviews and moderation skills used for the research, as well as information on the products assessed during the discussion in terms of consideration for use, the reasons for not including pre-work and the full discussion guide used during the interviews.

Interview approach

In-depth, face to face qualitative interviews were chosen to provide the ideal forum for respondents to open up and share their credit journeys and experiences without feeling judged. These interviews took place in the respondents' homes to ensure maximum comfort and privacy levels for discussion around a sensitive subject. Conducting interviews in home also allowed moderators to contextualise information about the consumers' lives and circumstances, allowing a deeper understanding of their personal circumstances. This provided further guidance for the questions asked during the interviews and for the analysis of responses post interviews.

The interviews lasted between 75-90 minutes; this was to allow sufficient time to explore participants borrowing journeys and personal credit experiences fully whilst maintaining engagement levels.

A challenge for this research was to fully understand what has led these consumers to borrowing decisions and the impact of decisions. In order to provide this level of understanding Optimisa Research used a senior project team with experience researching similar audiences/subjects. Throughout interviews moderators were aware of and looking for signs of detriment; due to the fact that consumers are not always aware themselves of any detriment caused by their choices or behaviour. This was something that was looked for sensitively and with discretion, assessing both verbal and nonverbal behaviour. Behavioural biases were also considered during the design of discussion guides, during the interviews and in analysis, due to the important role they can play in consumer borrowing decisions.

Product assessment

During the interviews consumers were asked about their borrowing journeys from their first borrowing to any or all products currently held. The latter part of the interviews then assessed different borrowing options available on the market in terms of whether they were a consideration for current/future borrowing amongst these consumers. Discussions included current products held by individuals, those not used, as well as informal borrowing from family, friends or illegal sources. The full list of products is shown in figure 1.

This allowed the researchers to explore and understand awareness and perceptions of products used and those not currently used by this group of consumers. Products were assessed in terms of;

Awareness and understanding

Pros and Cons of each product – including cost of borrowing
How easy to take-out/accessibility
Perceived to be for long term or short term borrowing
Speed and convenience

Pre-work

Using pre-work or a task was not felt to be necessary or appropriate for this research, due to the sensitive nature of the research and the audience. It was not desirable for participants to become too familiar with the subject, to overthink or try to post-rationalise their behaviour, or be daunted at the prospect of the upcoming interview.

Participants were asked to gather together any communications they have received from credit providers or anything else relating to borrowing for discussion during the interviews. Not all had done so, which suggests low engagement with providers and/or a tendency to ignore or dispose of correspondence without reading.

Discussion Guide

One discussion guide was used for all participants and locations. This formed the overall structure and basis for the discussion. The moderators were able to adapt and be flexible to participants' answers, probing, challenging where appropriate and following a natural flow of conversation. Terminology was adapted as necessary to fit with the language and terms used by the participants, to ensure understanding/put participants at ease.

All interviews were audio recorded with participant permission. An Optimisa moderator led the discussion, on occasion accompanied by a supporting colleague from Optimisa Research or a member of the FCA insight team to observe. Where participants were comfortable and gave permission, short video clips were captured to highlight key insights and comments.

Overview of discussion guide sections and timings

Warm up	**Purpose of section:** Put respondents at ease, find out some background details about household, sources of income, dependents, relax them, get them talking	**2-3 minutes**
Financial needs and priorities	**Purpose of section:** Get a sense of financial priorities, how they feel about money/managing money – to provide context for the remainder of the session	2-3 minutes
Their financial journey to debt/borrowing	**Purpose of section:** Discuss individual journeys to borrowing, exploring triggers, perceived options, how borrowing decisions made in the past/now/whether and how (if applicable) this has changed	25 minutes
Role of credit in their life now	**Purpose of section:** Explore current use of credit – where it fits with day to day / month to month money management / how they feel about their own current situation	10 minutes
Borrowing Options 1 (exercise)	**Purpose of section:** Uncover top of mind perceived options for short term borrowing	2-3 minutes
Borrowing options 2	**Purpose of section:** Establish top of mind credit options and add in any not mentioned spontaneously, then explore all the options – experiences/ perceptions, role, advantages/disadvantages / any assumptions/attitudes about different forms of credit	10 minutes
Over-indebtedness (where applicable)	**Purpose of section:** Explore respondent's own experience of over-indebtedness / what this constituted / how it felt / which types of credit led to this and what were the triggers	10 minutes
Addressing over-indebtedness / Sources of advice/ help with debt	**Purpose of section:** Have they attempted to resolve issues of over-indebtedness / how have they done this / what was valuable / what didn't work	15 minutes
Summary/Close	**Purpose of this section:** Obtain key points of takeout / summary vox pops with permission Thank & Close	2-3 minutes

Full Discussion Guide

Warm up

- Thank respondents for agreeing to take part
- Introduce self, Optimisa Research and FCA as sponsor (explain role of RA/FCA team member if present)
- Broad outline/structure of the interview – going to be talking about personal finance generally and borrowing in particular – no right or wrong answers, no trick questions, and no-one is judging anyone – important to be open and honest – across our research we expect differences and everyone's opinions and experiences are equally important
- Filming / audio recording / purpose
- Privacy / anonymity / confidentiality of personal data – provide reassurances
- Ask for any questions and concerns before starting

Ask respondent to introduce themself:

  - First name/Family/occupation if working
  - Lifestyle/How feel about money generally

Financial needs and priorities

- Tell me a bit about your finances – not how much money, just give me a feel for some of the different accounts you've got. What else?
- How would you describe how you feel about personal money matters? – bored, excited, interested, frustrated, necessary evil, stressed etc. Why do you say that?
- Either verbally or using SORT CARDS as appropriate – ask respondent to pick words that describe how they feel about money/how they manage it
  - Happy go lucky / Silly / Careful / Anxious / Conservative / Cautious / Wasteful / Strict / Good at budgeting / Disorganised / Hopeless / Not interested / Confident / Stupid /Head in the sand / Fire fighting
- Why is that? Probe fully – have you always been like that or has your attitude changed over time? Where does that come from?
- What are your financial priorities right now? Can we separate them into immediate goals, medium term and longer term? What do you most want/need to do when it comes to money/managing your money?

Their financial journey to debt/borrowing

- Tell me about borrowing – when did you first borrow, how and what for? Probe fully – try to build a picture of their individual journey and how it has played out so far – look for and explore any indications of urgency, needs based versus more discretionary/fun/aspirational borrowing. *Use blank sheet of paper to help respondent sketch out journey and timeline if useful/appropriate.*

Across different stages/borrowing points:

- Which loans or other types of borrowing have you taken on over the years?
- What did you need the money for/use the borrowing for? Something in particular or you just felt like it?
- Did you have any other ways to raise that money / do what you were looking to do?
- When did you first hear of product xxx…[spontaneously we can get this information without asking directly about the products
- What borrowing options did you consider? SPONTANEOUS
- How did you first find out about these?
- What choices did you feel you had re borrowing options? Were there any you thought you wouldn't be able to have? Why is that?
- Why did you decide on the credit option that you did?
- Do you think you made the right choice? If so, how did you know this? If not, why not? What would you have done differently?
- Once you'd decided which route you wanted to go down, did you shop around for the right loan/card (as appropriate)? What was important to you when you were looking? (i.e. speed, ease, rate, brand, length of time to pay back, level of repayments etc.)
- How did you finally decide on the loan/card you took? What helped you make the final decision?
- Did you take any advice on the best thing to do? (probe for any perceptions around unregulated borrowing – what does this mean/pros and cons etc.)
- What is/was it like using these products? What sort of communications did you get from lenders? What did you think of these? Did you read them? What did you do with them? How happy were you with your decision? Did the product meet your needs, or did it fail to meet your expectations in any way? Or exceed them?
- Have a look at their paper work if available / with permission
- Are you aware of what it cost you to borrow in this way?
- Thinking about some of the times you've borrowed before – what has gone really well?
- Have you ever had any experiences with borrowing that weren't so good? What happened? How did you feel?
- (as appropriate) – did you make a complaint or think about complaining?
- If complained – what did you actually complain about? How did you do it (channel etc.)? What was the outcome? If thought about it but didn't – why not? Did you know how to go about it? Did you try to find out? What if anything could have made this process easier?
- What did this experience teach you about borrowing?
- If you were borrowing again, would you do anything differently as a result of your experience?

Role of credit in their life now

- How does borrowing fit into your life now? Explore fully – central to coping / part and parcel of budgeting/making ends meet / only used in cases of emergency/as a safety net / only used for things that cost too much to buy outright from wages/benefits i.e. a car, furniture, other large purchases etc.

- How do you feel about where you are with any outstanding borrowing you have? use sort cards if appropriate to stimulate discussion [have blank a5 cards to hand to write in any not pre-identified]:IN CONTROL / CONFIDENT / ORGANISED / WANT TO BE SHOT OF IT / TRAPPED / WORRIED / OUT OF CONTROL / ON TOP OF THINGS / DROWNING / NO WORRIES
- Tell me more about that feeling. How do you manage your borrowing and paying back your debts? How well does that work?
- What sorts of things have you done that have helped you manage your borrowing, either now or in the past?
- What sort of thing doesn't work – or gets in the way of your plans?
- Is there anything you could do differently? Anything stopping you from doing that?
- Where would you like to be in terms of your borrowing 6 months from now? 12 months? 3 years? What needs to happen, to make that possible? Anything else? Where do you think you will be?
- What do you see happening – in terms of any borrowing you've got now? What about future borrowing? If you think about future borrowing, what sorts of products do you think you might take out?

Borrowing Options 1 (exercise)
Imagine you needed to get hold of £500 in a hurry – what would you do? What options would you have? What would be your first choice? Anything you wouldn't do? NB – no borrowing from friends and family! *Probe fully for what would and wouldn't do and then move on (this is just to get a sense of unprompted what they see their borrowing options as)*

Borrowing options 2
This discussion should build on the credit journey section. Don't waste too much time talking about products respondents don't think they would ever consider but make sure you have a clear idea of what is driving this i.e. wouldn't be accepted, only for affluent people, too difficult, too expensive etc. Some probes as appropriate:

- *Credit card*
- *Store card, Retail catalogues/online shopping accounts*
- *Current account overdraft*
- *Hire Purchase Agreements (furniture, car finance etc.)*
- *Bank/personal loan*
- *Mortgage/mortgage extension*
- *Pay Day loan*
- *Credit Union loan*
- *Home credit e.g. Provident*
- *Logbook loan*
- *Informal borrowing i.e. friends/family, loan shark etc.*

- Had you previously heard of this borrowing option?
- Who currently has one of these or has done in the past?
- What are the pros and cons of this way of borrowing? (establish also whether or not ever considered before). Anything else?

- For what type of situation would you consider this? (I.e. emergency, a treat, essential purchases, covering bills etc.)
- Is this more suitable for short term or longer term borrowing? Why is this?
- Other than the drawbacks we've mentioned, are there any dangers using this type of product? Probe fully
- Are any of these ways of borrowing easier to pay back than other ways of borrowing?
- Are any of these ways of borrowing easier to get than others? Have you ever tried to use any of these ways of borrowing and either not been able to, or thought about it and not tried because you didn't think you would get it?
- What would you have done if you weren't able to get the option you wanted? What if this option wasn't available to you?
- Are any of these ways of borrowing more or less suitable for different people? In what way?

ONCE EACH DISCUSSED:

- Are you personally more comfortable with some of these products than others?
- Are some better suited to different reasons for borrowing? In what way?
- Are some better for longer or shorter term borrowing? Why?
- Do you feel you need advice, information or help before choosing or when managing any of these ways of borrowing?

Over-indebtedness (where applicable)

- Have you ever been in a situation either now or in the past where you have felt like you've had too much debt? Can you tell me a bit about it?

Explore fully –

Was/is it about one particular loan or other form of credit, or multiple borrowings? Is it about the total amount of repayments, about timings of the repayments, ways to pay and so on?

How did/does it make them feel? How do/did they manage this situation - i.e. do they make minimum payments – if so do they know what the implications of making minimum payments are?

Do they ever miss payments? If so how often and how do they handle these – let the lender know or do nothing? If so, what happened?

If they have multiple borrowing and sometimes miss payments – do they miss them for all lenders in any given month or are they juggling? If juggling, how do they decide who to pay? What are the factors they take into consideration?

How did this 'getting into too much debt' come about? Was it a result of the loans themselves/a certain type of borrowing, or was it driven by the need to borrow? Have they got into arrears with any of their borrowing / got behind with repayments any time in the last 6 months? How many times / to what level?

Addressing over-indebtedness

- Did you try / are you trying to do something about having too much borrowing? Explore reasons why/why not – triggers, external influences etc.
- What did you try/are you trying? How did you know to do this? (Check for any sources of information/advice/research/advertising etc.)
- What happened when you tried? What was the outcome? What happened that was useful? What didn't work?
- Have you tried/did you try letting their lender(s) know you are/were struggling / have you tried negotiating lower repayments?
- What else could you do? What sort of help would be useful in this situation?
- If you wanted to get any sort of help or advice about borrowing, debt or managing your money generally, or wanted to help someone else get help, how would you go about it?
- What organisations/sources of help can you think of that provide money-related help or advice? What others? If necessary use one or two of the examples below to prompt discussion:
    - Citizens Advice Bureau
    - Friends and family
    - Debt management companies
    - National Debt Helpline / other helplines
    - Step Change
    - Bank or other financial provider
    - Financial Adviser
    - Google / online search
- If someone you knew was struggling, where would you suggest they turn for help?

Summary & close

Moderator to sum up key take out / ask respondent to sum up in own words as appropriate, capturing summary thoughts on video

Final potential questions if time:

- What do you think lenders could do to make sure that people don't borrow too much / don't get into difficult with credit?
- What do you think people themselves could do to make sure that they don't take on too much debt?
- What do you think the Government/the FCA should do to ensure that lenders treat customers fairly?

Thank & Close