

Payday denied: Exploring the lived experience of declined payday applicants

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Outline

- Context
- Project aims
- Methodology
- Findings
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Context

- In the UK since 2010, payday loans have been the subject of considerable attention



FCA regulation of high-cost short-term credit (HCSTC)

The FCA has significantly strengthened regulation of high-cost short-term credit (often known as 'payday lending'), driving up standards across the sector

Authorisation

Scrutinised firms to ensure they meet our threshold conditions

Supervision

Taken action including delivering more than £300m in redress

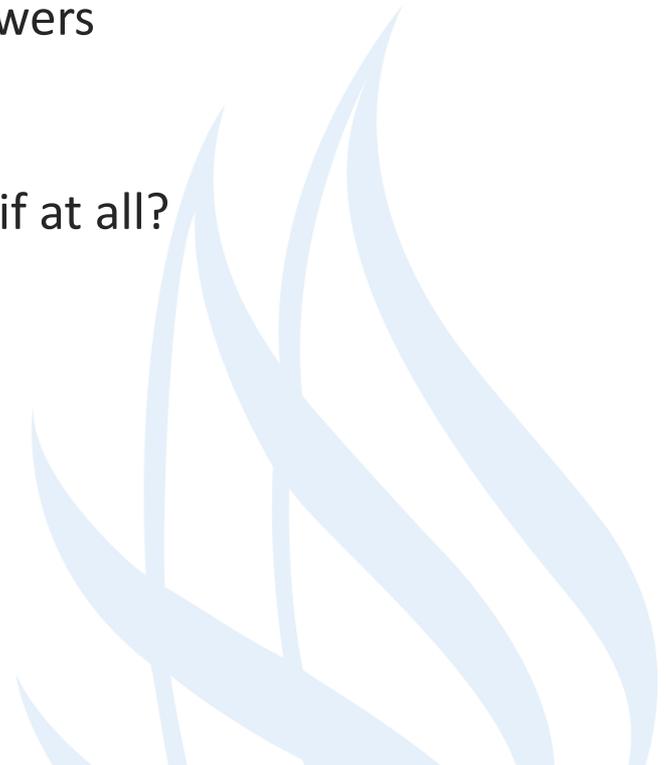
Policy

Introduced a price cap, risk warnings, restrictions on rollovers and how recurring payments are collected

Project aims

Investigate the **impact of the regulation of High-Cost, Short-Term Credit (HCSTC)** since January 2015 on lenders and borrowers

- Has this reshaped the landscape for borrowers?
- How are “declined” applicants accessing credit, if at all?
- What are the impacts?
- What is the lived experience?

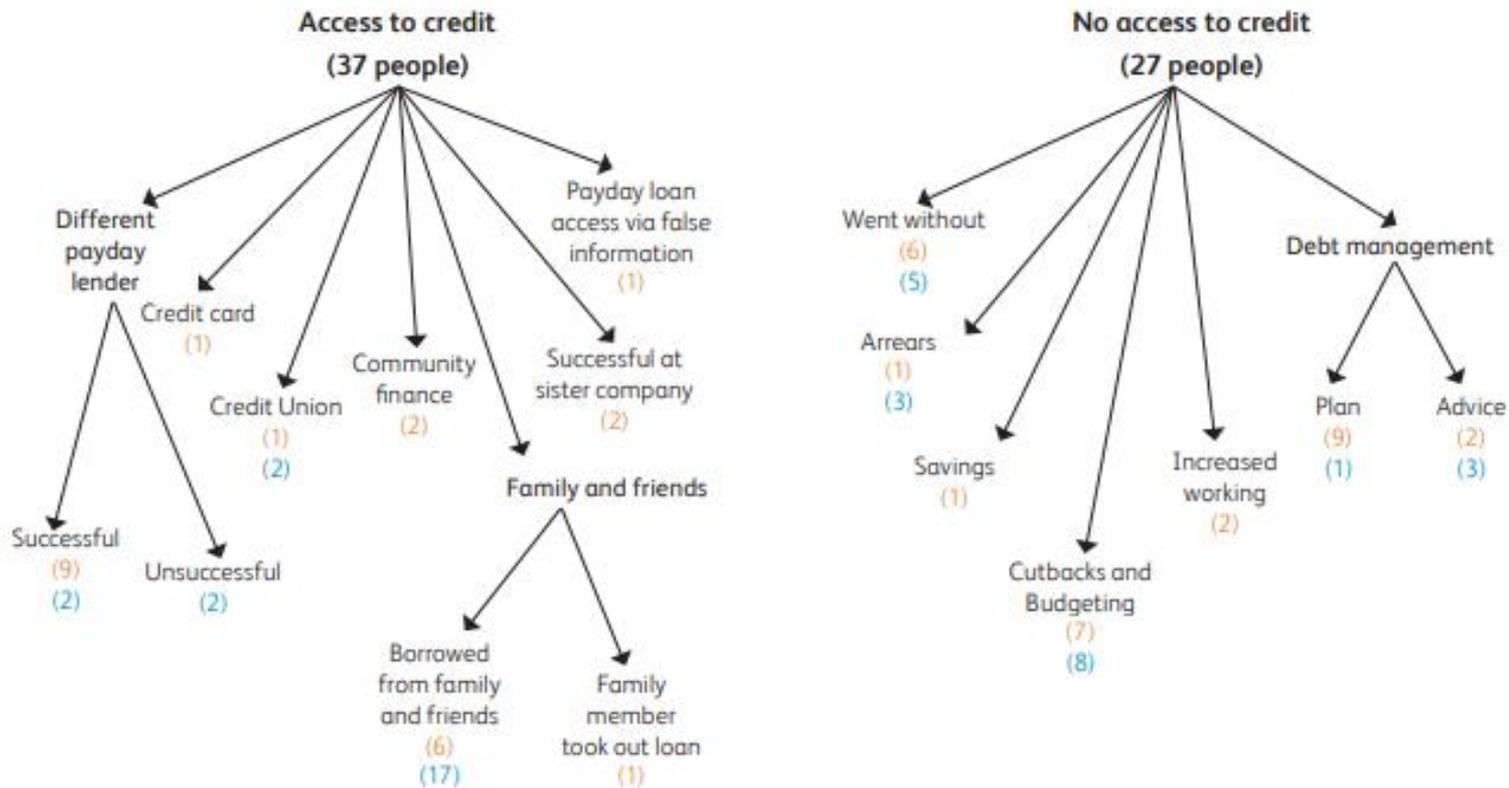


Methodology

- **80 in-depth interviews** with ‘declined applicants’ of HCSTC
- Participants: aged 25-44, employed, single, dependents, rented housing
- Interviews centred on **payday loan hotspots** of Glasgow, Birmingham and London
- Ethical considerations: interviews in public spaces, in pairs, incentives

Declined applicant journeys

Key
London, Birmingham
Glasgow



Access to credit: from a different payday borrower

- In two cases, online payday loan companies declined applicants, but then referred them to their sister lender:

*'Because [payday lender] didn't approve me. They said to **go to our sister company** [another payday lender].'*

(Bob, Birmingham)

Access to credit: informal borrowing

- Borrowing from family and friends is not without challenges:

'I ended up having to borrow off my mum. Yeah, I know ...Oh honestly, I hate doing it, I absolutely hate doing it, but yeah, I ended up having to go to her.... Just because it makes you feel as if, like it's my problem, do you know what I mean, it's not hers, it's mine, so I'm an adult now I should be able to deal with these kind of things myself. I just don't like it. Like she doesn't grudge it or nothing like that, she does get me it if I needed, but I'd rather not, it's just pride really'

(Elizabeth, Glasgow)

No access to credit

- Family and friends provide non-financial support:

*'I couldn't get a tumble dryer, so obviously **I have had to rely on my parents and family and friends to help me** drying my children's clothes because obviously I've got 3 children, so not being able to dry the clothes without anything to dry it with, so just relying on my family and friends at the moment until I can afford, either I can get someone to give me a loan to get one or whether I can save up and go and get myself one'.*

(Stan, London)

Financial Capability and confidence

- Several participants in our research displayed scant knowledge of the repayment rates, terms and conditions of credit.
- *'I didn't want to take it out in the first place but **it was my only option at that time. And then you're thinking, well the interest's high, so does it matter, they're going to get the money, so does it matter, but then there's the guilt that comes back. Yeah, now looking back, you think, you know, it's extortionate and why didn't I think more clearly at the time and that but, at the time, the need, you know, is far greater than their interest.'** (Sarah, Birmingham)*

Conclusion

- Overall, HCSTC regulation **has helped protect** payday borrowers from significant financial harm
- **Our key research finding** is that the most likely behaviour someone who is declined a payday loan will demonstrate is to seek **another borrowing option**
- Borrowing from **friends and family is common** but finite solution
- Participants had very **limited knowledge of alternative credit providers**

Conclusion

- Being refused a loan from a payday lender was a catalyst for other **non-borrowing strategies** e.g. budgeting or going without credit
- Comparing the incidence of consumer harm triggered by payday loan use before and after the cap, we can see that **positive change has been made to that market** and the consumers within it
- This research found that the biggest commercial names in payday lending tended to **conform closely to regulations**. FCA needs to ensure this is working in practice

Recommendations

1. **More and better (affordable) credit products**
2. **Increased regulatory activity** to tackle a two-tier payday loans industry
3. **Organisational innovation** for people to avoid unaffordable credit
4. Feasibility of a **No Interest Loans Scheme (NILS)**
5. The development of **guidance on informal lending**
6. Payday lenders contributing to the **financial capability** of their customers
7. **Guidelines for debt advice** charities on specific courses of action for declined payday applicants