

ESRO

Financial Conduct Authority

Consumer Credit Research: Payday Loans, Logbook Loans and Debt Management Services

CLIENT

FCA

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ESRO is a multiple award-winning research agency that works with clients across the public, private and third sectors. We specialise in conducting research on complex and sensitive subject areas, and we are committed to designing flexible, mixed-method approaches to recruitment and fieldwork that respond to uniquely challenging research questions.

This project was led by Becky Rowe. The research team comprised Jenny Holland, Dr Rebecca Nash, Dr Agnes Hann and Oliver Hopwood, with logistical support from Tom Brown.

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ESRO Ltd was commissioned by the Financial Conduct Authority, but acted independently throughout the research.

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1 Executive Summary

This report sets out the consumer experience of payday loans and logbook loans, as well as the experience of debt management services, both fee-charging and non-fee-charging. This research was one strand of several contributing to the Financial Conduct Authority's Consumer Credit Research Programme. Interviews with sixty respondents who had recent experience of these consumer credit products were conducted in November and December 2013.

PAYDAY LOANS AND LOGBOOK LOANS

The research found that payday loans and logbook loans are best understood within the context of other forms of credit. Consumers take out payday and logbook loans in some instances because of the anonymity, accessibility and autonomy they might provide, because they cannot or do not want to ask loved ones for money – and often because they have few other options.

PAYDAY LOANS

Consumer attitudes toward payday loans

Payday loans offer a number of benefits to consumers such as speed, ease and access to credit. Many preferred the anonymity of payday loans to borrowing from family and friends. Others felt these high cost, short-term loans are a way to limit the potential for irresponsible borrowing and preferred them over mainstream credit products such as credit cards. The majority, however, accessed payday loans because they had few other alternative credit options.

People take out payday loans for a range of different reasons, including general household management or to pay small business expenses, to cover one-off expenses, and when hit by unexpected life circumstances. In a few cases, payday loans were taken out as a result of problematic behaviour such as gambling or drinking.

The consumer experience of payday loans

Of the three products featured in this study, payday loans were by far the most well-known and widely used. When choosing a payday loan company, shopping around was limited. Consumers focused on brand awareness, reputation and website feel when choosing a lender. More frequent borrowers actively sought lenders who were perceived to have looser lending criteria and who were more likely to lend in spite of poor credit history.

Channel preference was an important factor in decision-making, and the majority of respondents preferred to access payday loans via the Internet. A small minority preferred to take out payday loans in a lender branch.

Very few respondents paid attention to APR when taking out a payday loan, with the vast majority focusing instead on the final payment due at the end of the loan period. They were more likely to conceptualise payday loans in terms of the charges and fees that would be applied in total, rather than in terms of interest that might accrue over time.

The majority of respondents described the process of setting up a payday loan agreement as quick and easy. Most commented that lenders did not ask for evidence of outgoings, and explained that it was not difficult to access loans from multiple lenders simultaneously. They felt that the most thorough checks consisted of verifying debit card details in order for the lender to set up a Continuous Payment Authority (CPA).

After taking out a payday loan, consumers were frequently surprised by some aspects of the borrowing process, primarily the ability to roll over or extend and the additional cost that this could incur. The

majority of respondents struggled to terminate their loans and found it easier to extend the loan rather than pay it back in full. As a result, many ended up in cycles that they struggled to break out of.

Issues around payday loans: consumer-driven

A number of consumer-driven and firm-driven problems characterise payday lending and borrowing. Respondents carried out very limited research into credit products and how they compared to each other, often prioritising speed over cost. Many were overly optimistic about their ability to pay the loans back. A few respondents consistently relied on various forms of credit to finance a lifestyle that they struggled to afford.

Frequent borrowers became adept at manipulating eligibility criteria, particularly online. When struggling to repay, some borrowed more from multiple, different lenders and avoided repaying existing loans or communicating with lenders about outstanding balances.

Issues around payday loans: firm-driven

The research revealed misleading advertising and sales; for example, consumers unknowingly paying for loan referrals rather than actual loans, unclear charges for money transfers, and lack of disclosure about the potential for rolling over or extending the loan until the point the loan was due.

There was a widespread sense that lenders carry out limited assessments of people's actual ability to repay a loan, that there are minimal safeguards, especially online, when not sound of mind at the point the loan is taken out (e.g. when drinking alcohol), and that loans are often offered at amounts higher than those requested.

During the life of the loans, respondents reported experiencing CPA errors – where incorrect amounts are withdrawn or withdrawn on the wrong day. Many reported being actively discouraged to terminate their loans. When struggling to repay, those consumers who wanted to negotiate forbearance options found it very difficult to make contact with their lenders. A small minority experienced aggressive or threatening responses when they were unable to repay.

LOGBOOK LOANS

Consumer attitudes toward logbook loans

Logbook loans offer the benefit of access to credit without conventional credit checks, and a larger loan amount than that many respondents perceived to be available elsewhere. Respondents valued the ability to repay logbook loans over a longer period than payday loans. The majority of respondents took out logbook loans because they had no alternative way of accessing a larger sum of money.

Most logbook loan respondents were dealing with financial challenges such as servicing other debts or attempting to consolidate debts, variable income patterns, periods of unemployment or sudden income shocks, or unexpected bills or expenses. A few needed the money for life events, and a minority was engaged in problematic behaviour such as excessive drinking or gambling.

The consumer experience of logbook loans

The research found very little awareness of logbook loans and virtually no shopping around. The vast majority of respondents came across the company they took out the loan with at the same time they first encountered the product itself, with many not even considering that there could be competitors out there offering a similar product.

Borrowers were however often unclear about important aspects of the loan agreement, primarily the state of ownership of the car, the total amount they owed, and additional charges or fees. Many found the loan paperwork overly complex and lengthy.

The majority of respondents ran into difficulties during the course of repaying their loans. Many felt that this was due to a perceived disparity between the information that had been provided orally at the point of signing the loan agreement, and information in the written documentation. Respondents also reported numerous administrative errors during the course of repaying their loans, which was often very stressful.

A number of respondents completed their logbook loan repayments without running into what they considered to be major difficulties or incurring significant additional charges. Those who ran into problems repaying reported experiencing what they felt to be aggressive or difficult lender behaviour.

Some came close to having their car repossessed, and a few did eventually undergo vehicle repossession or surrender.

Issues around logbook loans: consumer-driven

Respondents had little or no awareness of logbook loans prior to taking them out, which meant that they were subsequently unaware of what questions to ask, how the process would take place, and the state of the car ownership. Most had a low appreciation for APR figures. Some were desperate for the loan and were unlikely to shop around, and many focused more on weekly payment amounts than the sum total of what they had agreed to repay.

Issues around logbook loans: firm-driven

Lenders were quick to follow up initial consumer inquiries, which often left consumers feeling rushed and pressured to take out the loan. Evidence suggests that the cost of the loan was often not visible in advertising and that additional fees and charges were not always clear, masking the total amount of the loan.

Lenders often emphasised the affordability of weekly payments and underplayed the total amount due at the end of the loan. Contracts were often complicated and key terms and conditions were buried within lengthy small print.

Lender communication with consumers once the loans were set up was often limited. The research found that monthly statements were often vague, occasionally incorrect, and that borrowers found it difficult to have their accounts amended when there had been administrative errors.

Repayment issues often led to aggressive and threatening lender behaviour, including vehicle repossessions, some of which were unprofessional and traumatic to borrowers. In several instances, lenders continued to take out direct debit payments after the loan had been paid in full.

DEBT MANAGEMENT SERVICES

Alongside payday loans and logbook loans, the research examined the consumer experience of fee-charging and non-fee-charging debt management plans (DMPs) and Individual Voluntary Arrangements (IVAs). These plans and arrangements are part of a broader debt management market that includes debt consolidation loans, bankruptcy, Debt Relief Orders (DROs), Administrative Orders and Fast-track Voluntary Arrangements (FTVAs).

Consumer attitudes toward debt management services

Respondents had varying outlooks towards addressing their debt, with some thinking about their long-term financial situation and setting up a DMP or IVA to 'get life back on track'. Others saw a debt management service as a way to give themselves immediate relief and 'breathing space'.

The main attraction of setting up a DMP is that it is an informal, flexible way of managing debt repayments to creditors, offering the potential for negotiation around interest and charges. For many people, it was a way of simplifying the process of dealing with multiple creditors. IVAs, on the other hand, offered more protection from creditors and enabled a proportion of the debt to be wiped in cases where respondents' debt was large, and they had a reasonable amount of disposable income to make repayments.

Consumer experience of debt management services

Respondents were often highly stressed at the point of considering a debt management solution, and this meant that the decision-making process was often characterised by a sense of urgency.

Several respondents had given serious consideration to alternative debt management options, but a significant number had not heard of a DMP prior to coming across the provider they used, and there was very little product comparison. These respondents had little knowledge of the exact nature of services on offer and the range of companies and organisations that provide them.

The vast majority of respondents entered into a debt management arrangement with the first provider they happened upon. 'No fee' DMP respondents were often directed towards non-fee-charging services by their creditors, or upon receiving independent advice; others conducted Internet searches / saw ads on TV or spoke discreetly to family and friends; and others respondent to targeted marketing phone calls.

Most respondents found the process of actually applying for and setting up the DMP or IVA swift and straightforward and felt huge relief at the opportunity the plans offered to address debt. Once the DMP or IVA had been set up and repayments were underway, respondents reported a range of different experiences of the repayment process. A few found the process simple and affordable, and did not run into any difficulties along the way. Overall, however, many felt that the process had not been what they expected, and were disappointed with some aspects of the service. Problems included confusion around the status of negotiations with creditors, confusion around whether interest fees were being frozen or not, and the amount of fees going towards the debt management service versus the debt itself.

Respondents with non-fee-charging companies or organisations tended to have a more positive customer experience overall.

Issues around debt management services: consumer-driven

Most problematic practices that characterise DMPs and IVAs are firm- rather than consumer-driven, although in some cases, the two are closely connected. All of the issues identified by the research were attributed to fee-charging services.

Because consumers were often relieved when a DMC representative offered advice, they failed to question what they were being told or consider alternatives. A small number of consumers entered into debt management plans as a way of deflecting particular creditors, rather than dealing with their overall debt problems.

There was some evidence of respondents manipulating their information at the application stage in order to keep monthly payments to a minimum. Some paid very little attention to written communication that providers sent to them. Others avoided all attempts at communication when they struggled to make repayments and / or found themselves in arrears with their debt management service.

Issues around debt management services: firm-driven

There is evidence that lead generators play a strong role in the process of selling debt management services, and that this was not always clear to consumers. There was generally a lack of distinction between financial advice and sales, meaning that consumers often believed they were receiving impartial advice when speaking to DMCs. In some cases, salespeople would close down discussions, making it difficult for consumers to find opportunities to ask questions.

Debtors were often unclear about the charges involved in a DMP, including set-up charges and the front-loading of fees. Debtors were also often unclear as to whether interest / charges would be frozen – in some cases, this led to the escalation of debt once the plan had been set up.

DMCs often emphasised ‘affordable monthly payments’, meaning that consumers were frequently unaware of the total cost of a DMP. In a few cases, the DMP or IVA was inappropriate to the consumers’ level of debt and it would arguably have saved time and money for the consumer to negotiate directly with the creditor.

There was a lot of confusion surrounding communication with creditors, with many consumers continuing to receive calls and emails from creditors complaining that they were not being paid. DMCs sometimes claimed they could guarantee that creditors would agree to freeze interest once a DMP was set up, when creditors are not, in fact, obliged to agree to this.

Some DMCs were unhelpful when consumers challenged the service they were receiving. In some cases, when consumers struggled to make payments, lenders behaved in threatening or aggressive manners. This was especially the case at the point of consumer withdrawal from the process.

CONCLUSIONS AND CONSUMER RESPONSE

This research has identified themes that are relevant to the wider consumer credit and debt management landscape. Consumers often did very little product comparison and lacked basic knowledge of products they took out. Few read product terms and conditions, and were overly optimistic about their ability to stick to the terms of the agreements they made. In combination with their lack of awareness of the products they were buying and the overall market, this optimism meant that consumers often failed to consider or prepare for the ‘worst case scenario’.

Respondents recognised that they were not managing their finances well, but given the situations they currently face or had faced in the past, felt that these consumer products played an important role in their

lives. This said, they often resented and were disturbed by what they saw as unfair firm behaviour. Many felt strongly that 'something' needed to be done.

The research identified the following potential areas for consideration:

- There was a general desire for well-structured forms of credit that have repayment of the debt as a clear priority.
- When it came to credit products, many advocated interest rate caps or an outright banning of these types of companies [NB. The research took place at a time when these kinds of demands were being made frequently in the media].
- With debt management services, many accepted that fee-charging companies should exist, however charges should be clearly highlighted and 'advisers' should be properly trained.
- Tools that would aid comparison were suggested. This could help consumers easily identify firms that behave fairly and shape decision-making processes.
- The research demonstrated that eligibility checks represent an opportunity for improvement. At present, consumers often find these basic and easy to manipulate.
- Consumers described facing challenges when information was not presented upfront, in a consistent format, and on a regular basis throughout the full duration of the process.
- The research identified a potential for improving the consumer experience through making changes to training for staff in certain roles, which could involve, for example, the clarification of the distinction between 'advice' and 'sales'.
- Finally, there may also be an opportunity to provide consumers with a clearly phrased 'worst case scenario' or 'what can go wrong' message on products / services at the point of advertising / purchase to reduce the possibility of products not performing as consumers have come to expect.

2 Introduction

This report sets out the consumer experience of payday loans and logbook loans, as well as the experience of debt management services, both fee and non-fee-charging. This research was one strand of several contributing to the Financial Conduct Authority's Consumer Credit Research programme.

2.1 FCA CONSUMER CREDIT REGULATION

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

On April 1st 2014, regulation of consumer credit transferred from the Office of Fair Trading (OFT) to the Financial Conduct Authority. This move is widely supported by many industry stakeholders, who believe that the FCA will have more adequate powers and resources to protect consumers, be able to ensure the efficient functioning of the consumer credit market, and be flexible enough to keep pace with a rapidly-expanding and innovative market. Many of the published responses to the FCA's Consultation '*High-Level Proposals for an FCA Regime for Consumer Credit*'¹ highlight concerns around current lender practice and the potential risk of detriment to consumers.

This research project – part of a multi-strand package of consumer insight work, also involving high-level qualitative studies – was commissioned to inform its next steps in consumer credit.

2.2 STRUCTURE OF THE REPORT

This report focuses primarily on research findings, with technical information about the vocabulary used, the individual products assessed and the research methodology appended as a separate Technical Report. The main report consists of an overview of the research objectives (Section 3) and the methodology (Section 4), followed by main research findings and conclusions. Payday loans and logbook loans are discussed in Section 5, while debt management services are discussed separately in Section 6. This is because debt management services are not, strictly speaking, 'credit products', and work in a different way to payday loans and logbook loans.

¹ Financial Conduct Authority, 2013. *Detailed proposals for the FCA regime for consumer credit*. <http://www.fca.org.uk/news/consultation-papers/cp13-10-consumer-credit-detailed-proposals>

3 Research Objectives

3.1 OBJECTIVES

The overarching aim of this research was to provide the FCA with a detailed understanding of consumer behaviours and attitudes around three products / services: payday loans, logbook loans and debt management services. Specific objectives were:

- To assess consumer behaviour and attitudes around the consideration, purchasing and use of these products, with a particular emphasis on the route to market
- To understand trends and patterns in the way companies communicate and behave with customers
- To understand those aspects of provider behaviour that may lead to consumer over-indebtedness and detriment, or a positive consumer experience
- To help inform the FCA's wider consumer protection and competition objectives, especially in terms of decision-making around the 'detailed rules' for consumer credit firms, by providing evidence about consumer and firm issues

The research also sought to examine the relationship between different credit products from the consumer perspective. This included understanding how customers move between credit products as well as revealing their attitudes to a range of products available within the broader credit market. This was the main reason why payday loans – a product that the FCA and the OFT have a lot of existing knowledge around – were included in the research alongside logbook loans and debt management services. As a credit product, payday loans have become so mainstream that looking at them facilitated a deeper understanding of the credit market as a whole.

As the research was intended to inform the FCA's wider consumer protection and competition objectives, it considered consumer detriment in a broad sense, including financial and psychological harm caused by:

- Unsuitable and / or unaffordable products
- Inappropriate marketing / advice
- Services and products whose high cost or poor quality signified a failure of the market

In line with the FCA's working understanding of consumer detriment, the research did not consider as relevant harm to customers caused by things other than market or regulatory failures.

3.2 KEY THEMES

The research covered a number of topic areas and key themes:

- The broader credit and debt management landscape
- Product perceptions
- Access to credit and routes to market
- The various stages of the customer journey, from application through to resolution / exit
- Firm behaviour
- Issues and problems – consumer-driven and firm-driven
- Implications for the FCA

4 Methodology

The research method for this project was qualitative and consisted of investigative depth interviews (2–3 hours long) with individuals who had recent experience of payday loans, logbook loans and debt management plans. Fieldwork was conducted from late November to mid-December 2013. During this time ESRO interviewed sixty individuals, with the product breakdown as follows:

- 15 × Payday Loans
- 20 × Logbook Loans
- 25 × Debt Management Services

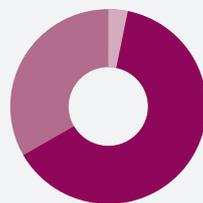
As many respondents had had experience of more than one of the products, data from outside the product sample also informed the findings within each product area.

Sample details

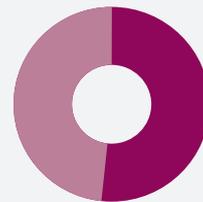
A good geographic spread across the UK was achieved, with the different products spread across all four nations. Fieldwork was conducted in the following parts of the country:

A NOTE ON RECRUITMENT

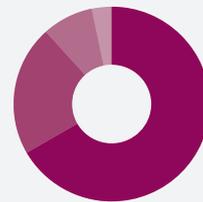
40 of the 60 respondents were recruited using a free-find method, and the remaining 20 via advice-giving organisations such as Citizens Advice Bureaus and MoneySavingExpert.com. Of these 20, five had payday loans, five had logbook loans and 10 had used debt management services. Recognising that these respondents were more likely to have had a negative experience of the product / service, we took care to ensure that respondents with neutral to positive experiences were represented across the sample as a whole.



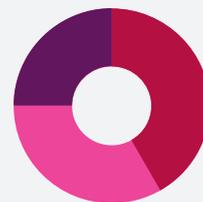
AGE
2 × 18–25
37 × 26–40
21 × 41–65



GENDER
31 Men
29 Women



ETHNICITY
40 White British
13 Black British
5 Asian British
2 White 'Other'



TYPE OF PRODUCT
25 Debt management services
20 Logbook loans
15 Payday loans



More information about the sample structure, recruitment channels and interview approach can be found in the appended Technical Report (Sections I and II).

5 Research Findings: Payday Loans and Logbook Loans

All of our respondents came from a range of backgrounds and had widely varying experiences, attitudes and behaviours around different credit products. A common finding across all three product groups was that almost all of the respondents had had experience with a variety of different credit products, and had complex, multi-dimensional credit journeys. They had a range of differing, sometimes starkly contrasting perspectives, opinions and experiences around credit and debt. Some felt that debt was intrinsically a ‘bad’ thing that ought to be avoided, whilst others were more nuanced in their views, suggesting that being indebted was not necessarily immoral but was normal human behaviour and part and parcel of getting by in life. Many of the respondents explained that their attitude towards being indebted as well as their spending practices had changed over the years, often referring to a ‘misspent youth’ when they had been careless with money. This had lasting consequences that shaped their behaviour in the present, and prevented some from accessing more mainstream forms of credit. These differing attitudes towards credit and debt were sometimes reflected in actual behaviour when it came to money management and borrowing practices.

The research also encountered a wide range of income, occupation and educational levels –respondents did not fall into a single social or economic category. This was reflected in the way the sample fell out across a large number of the segments identified in the FCA’s consumer spotlight segmentation model. During analysis, the following segments were identified: Segment 5 – Living for Now, Segment 6 – Striving and Supporting, Segment 7 – Starting Out, Segment 8 – Hard Pressed, and Segment 9 – Stretched but Resourceful. It is worth noting that although these segments have different key features, the majority are characterised by a median household income of £20–25k. Segment 8 is lower, at £10–15k, and Segment 9 is higher, at £35–40k. Although the vast majority of respondents were in work, only a very small number were from the higher earning Segments 2, 3 and 10.²

5.1 HIERARCHIES OF RISK IN THE CONSUMER CREDIT MARKET

Borrow from friends & family
Overdraft
Credit cards
Personal loans
Store cards / Catalogues
Payday loans
Doorstep lending
Logbook loans

The schematic overview of credit options depicted here broadly represents the hierarchy of risk that consumers associate with individual credit products.³ To some extent, it also reflects the order in which respondents moved through these products during their ‘credit journeys’. It is important to emphasise, however, that each of these credit products was found to be characterised by a range of perceived benefits, risks and barriers. This resulted in some variation in the individual credit journeys. During the course of the interviews, it became clear that there is a multitude of reasons why people access credit products from different angles and move between them in a range of directions.

For example, although borrowing from friends and family appears to be very low risk and arguably the most desirable way of accessing credit, factors such as embarrassment, shame and stigma, as well as the fear of exhausting goodwill and straining relations, represented a real risk for some of the respondents. For others, of course, this option was simply not available in the first place.

Another type of credit journey deviated from this schema amongst a small number of respondents who were suspicious of, or even hostile towards credit cards. They felt these fuelled temptation and made it too easy to get into trouble. These consumers actively bypassed this product, opting instead for short-term, high interest loans that made it easier to ‘self-police’ and impose limits on spending.⁴

This section considers the perceived benefits, risks and barriers associated with some of the products that form an important part of the broader credit market, with in-depth discussions of payday loans and logbook loans to follow separately.

‘I’d never have a credit card even though I’ve been sent letters. I think the temptation means you’d be stuck in it for years.’
Male, early 30s, Wales, Payday Loan⁴

² Definitions of the FCA consumer spotlight segments can be found in the Technical Report, Section V.

³ Jigsaw Research, 2014. *FCA Consumer Credit Research: Credit cards and unauthorised overdrafts*

⁴ All personal details have been changed.

Friends and Family

The primary attraction of borrowing from a friend or a family member is that they are perceived to be a trustworthy and unthreatening source of credit, unlikely to charge interest and assumed to be flexible and understanding when it comes to repayment. However, as mentioned above, the existence of a close relationship means that there can be a lot at stake if something goes wrong – respondents hinted at potential tensions, arguments, or even the breakdown of the relationship. Moreover, many respondents indicated that this type of borrowing could be experienced as embarrassing or shameful, and viewed it as a ‘last resort’. Finally, some respondents felt that they had already exhausted this source of assistance, or that it was an option that had not been available in the first place, either because they did not have family or friends they were close to, or because the latter were themselves facing challenging financial circumstances.

‘I borrowed money from my dad when there was nothing left to eat in the house.’
Female, early 30s, London, Debt Management Plan (non-fee-charging)

Overdrafts

Overall, overdrafts were perceived as a desirable credit option, chiefly because of the perceived low cost, low risk, ease of access and social acceptability associated with the borrowing. This was compounded by a general sense that the well-known high street banks – the main providers of overdrafts – were more trustworthy than many other lenders. However, a minority of respondents – including some who had had negative experiences with unauthorised overdrafts – perceived overdrafts to be expensive and risky. High awareness of overdraft fees and charges had left some respondents with an overly negative impression of this form of credit. A few also expressed concerns that overdrafts could become over-relied upon. A good number of the respondents were aware that they were not, or no longer, eligible for an overdraft due to their poor credit history. In some instances, this was related to a ‘misspent youth’ and problems that originated when they had had their first overdraft as a student.

‘I more or less live in my overdraft of £1500 ... it’s socially acceptable to be in your overdraft I guess.’
Male, late 20s, Birmingham, Payday Loan

Credit Cards

As with overdrafts, credit cards issued by ‘reputable’ high street banks were generally perceived to be a relatively low risk, low cost and a highly convenient form of borrowing characterised by a high level of social acceptability. Respondents distinguished between these types of credit cards and those more accessible to people with a poor credit history. Cards available to those with poor credit histories were perceived by many who had used them to be more expensive, riskier and less desirable than those issued by the banks.

Many of the respondents had a long history of debt that began – often decades ago – with credit card borrowing. In many cases, they had taken out credit cards with a specific ‘large’ purchase in mind – such as home improvements – but had ended up spending the money on other things, which ultimately proved unaffordable. These respondents – and even a few who had no experience of credit cards – were quick to point out that for consumers, credit cards could encourage what might on reflection be considered irresponsible borrowing. This type of borrowing was often triggered by credit card companies increasing the credit limit for consumers who were only making minimum payments, which would often lead to mounting debt that would become unaffordable in the long term.

‘If I had a card and a week till I was paid, I could max that card. I can be impulsive, so I feel like it’s a bad idea. It’s a slippery slope with a credit card.’
Male, mid 20s, Birmingham, Payday Loan

Personal Loans

When asked to reflect on taking out personal loans, respondents again made a distinction between what they saw as the relatively safe, low-cost options provided by the big banks, and those provided by other companies which were perceived to have less favourable terms and conditions, but were more available to consumers with poor credit histories.

Some commonalities were found, with respondents emphasising that personal loans were useful in situations where a large amount of money was required. However, this could also lead to eligibility issues, as respondents believed that they would need to demonstrate they had ‘good’ reason to justify taking out a large sum. In their minds, this could include things like home improvements, a wedding, or debt consolidation – but they felt that many other outgoings would not appear to be justified and might cause the application to be rejected by the lender. Although respondents noted that personal loan repayment options tended to be clear and well-structured – especially with the high street banks – they also voiced their concerns around taking out larger amounts and the long-term implications of this kind of debt.

‘I’ve had a personal loan in the past, and I missed payments. They were always able to take the money out of my account; I couldn’t stop it because it was an internal bank.’
Male, late 20s, York, Logbook Loan

Store Cards and Catalogues

Many respondents had experience of borrowing via store cards or catalogues. Both were viewed as easily accessible, even in situations where other types of credit might be beyond reach, and were generally deemed ‘very easy’ to set up. However, they were also described as an inflexible way to spend – being limited to certain places or stores – with a high potential for confusion and / or stress around keeping

'When our bad credit started, the one thing we could get was store cards, and I got New Look, River Island and Oasis. I just thought if you buy something you can give them £20 a month. Then you realise that the more you spend, the more they want, and it doesn't go down because of the interest.'

Victoria, early 30s, Bristol, Debt Management Plan (non-fee-charging) (see Pen Portrait, Section 6)

'We know her quite well and she is lovely. But I know a lot of people would think it is high risk. The interest rates are sky high.'
Couple, late 30s, Wales, Debt Management Plan (fee-charging)

'I couldn't afford to make the payments [to the credit card companies] which was where the payday loans came in. I was using payday loans to pay for the payday loans that were paying for the credit cards.'
Female, late 20s, Hertfordshire, IVA (fee-charging)

track of different creditors. Perhaps most importantly, respondents associated many of the same risks identified with credit cards with store cards and catalogues: the potential for overuse, irresponsible spending, spiralling debts and surprisingly high credit limits. Catalogues in particular were perceived to be problematic in that they often downplayed the option of immediate or early payment, making consumers more likely to forget about the debt until interest had accrued.

Doorstep / Door-to-door Lending

A fair number of respondents had experience of so-called 'doorstep' lending – also referred to as home-collected credit – usually with national firms, although a few had a local provider. Many of those with experience found these loans easy to use and praised the personalised service they received, describing how they might chat at length to the friendly lady who comes around to collect repayments. Those without experience were more likely to be wary of the risks and barriers associated with this type of credit. These respondents were most likely to say that doorstep lending was probably very expensive and were also apprehensive about the idea that someone would come knocking on your door to collect money. For some, doorstep lending brought to mind the concept of a 'loan shark' – a predatory lender offering very high interest loans, usually perceived to operate illegally. Finally, some respondents were not sure how they would go about finding a home-collected credit provider and setting up a loan agreement, having never had any contact with one before. Many were uncertain as to the formalities (or lack thereof) that the process would involve.

5.2 PAYDAY LOANS

A payday loan is a short-term, high-cost loan. They are typically available for a one-month period, for amounts ranging from £50–750. The borrower normally gives the lender authorisation to withdraw the money from their bank account in the form of a Continuous Payment Authority (CPA) or provides them with a post-dated cheque.⁵

The research found that people may take out payday loans for a range of reasons. Actual borrowing practices also varied widely within the sample, with the key dimensions being frequency of use, volume of debt and the number of simultaneous loans, likelihood of rolling over (paying off only the interest / charges, with the loan continuing for a subsequent month), and borrowing characterised by certain risky or problematic behaviours or feelings such as secrecy, lying, stress and fear.

Over half of the payday loan respondents fell into the FCA segments 7 – Starting Out, and 8 – Hard Pressed. It is worth noting, however, that although many payday loan respondents had low household incomes, not all were consistently struggling to make ends meet, and a small number had annual household incomes of over £40,000. The payday loan sample was also varied in terms of levels of education, credit use patterns, and degrees of overall indebtedness.

Many respondents borrowed from payday lenders for general money management purposes. This included overspending and / or running out of money before payday – sometimes, though not always, due to the need to service other debts. For a few self-employed respondents, payday loans were necessary to keep the business going before payments had come through.

There was a significant group, however, who accessed payday loans – at least initially – to cover the cost of a one-off expense that was not accounted for within their day-to-day budgeting. This could range from 'life events' such as going on holiday or moving house, to unexpected bills – for example, when the car broke down. A couple of respondents also explained how they had been hit by challenging financial circumstances due to bank account fraud.

Finally, a small number of respondents shared that they had accessed payday loans as a result of problematic behaviour such as gambling and drinking.

Throughout the remainder of this section on payday loans, there is reference to four respondents, introduced in the Pen Portraits below. These case studies have been selected because, together, they represent the diversity of the consumer experience of payday lenders.

⁵ Further definitions and key terms relating to payday loans can be found in the Glossary (Technical Report, Section IV).

ANDREA

PROFILE

- Married
- Healthcare assistant, part-time

'We just found ourselves short of money. I can't explain why. We were spending lots on food... everyday things.'

AGE

40–45

LOAN AMOUNT

£200–500 

LOCATION



HOUSEHOLD



LOAN FREQUENCY / DURATION

6–8 times 

BACKGROUND

- Both have unstable jobs, she has suffered from illness – limiting ability to work
- Long history of debt – personal loans, credit cards, store cards and overdrafts – authorised and unauthorised
- All debt cleared through a DMP a few years ago; poor credit score
- Total current debt is roughly £1,000 (payday loans and car finance)
- Use payday loans for household budgeting
- Generally manage to pay them back, though I has gone to a debt collection agency
- Sometimes need to roll over

LENDER BEHAVIOUR

- Quick and easy to access money
- Provide opportunity to split the payment over more than one month
- Unpredictably high interest rates applied
- Were not clearly communicated the consequences of rolling over
- Charged for a list of lenders by a lead generator

LUKE

PROFILE

- Married
- Solicitor

'Once you've got one, say for £500, then £740 goes out of your salary at the start of the month. You can't budget, and that's the sort of cycle you get into.'

AGE

40–45

LOAN AMOUNT

£400–1,000 

LOCATION



HOUSEHOLD



LOAN FREQUENCY / DURATION

3–4 times 

BACKGROUND

- Household income of approximately £70,000
- 'Misspent youth' – spent a lot and built up debt in his 20s
- Has a credit card and overdraft, but poor credit score
- Has taken out payday loans on several occasions when he's been out and had a gamble
- Main motivation was ease of access and secrecy
- Repays loan – but then ends up taking out a new loan when the money runs out before the end of the month
- Vicious cycle ensues – has been bailed out twice by relatives

LENDER BEHAVIOUR

- Marketing techniques whereby they encourage you to take more as a 'valued customer'
- Encouragement to roll over
- Pointing out that payday loans are preferable to going into your unauthorised overdraft

TINA

PROFILE

- Single
- Sales rep

'With payday, you get the money straight away and you know how much you have to pay back. It was handier.'

AGE

20–25

LOAN AMOUNT

£100–500 

LOCATION



HOUSEHOLD



LOAN FREQUENCY / DURATION

4 times 

BACKGROUND

- A bit careless with money during her student years; more careful now
- Reasons for debt include paying off a holiday, and a reduction in her wages when she became ill and had to take time off work
- Took out her first payday loan a year ago around Christmas time – for petrol and lunch money at work
- Paid it off and took out a second one in June; paid that off in instalments by extending
- Has had a couple more since then with different lenders
- Recognises that they have been useful, but also that they are expensive

LENDER BEHAVIOUR

- Opportunity to extend not made clear at the outset
- After she'd set up a repayment plan, very little communication from lender
- Website not so easy to navigate, takes longer for the money to arrive in your account

JUNE

PROFILE

- Divorced
- Carer, part-time + college student

'I was really surprised when I realised how much the interest was costing me.'

AGE

40–45

LOAN AMOUNT

£100–400 

LOCATION



HOUSEHOLD



LOAN FREQUENCY / DURATION

6–8 times 

BACKGROUND

- History of debt – at the beginning, it was mainly store cards and catalogues, then credit cards and a personal loan; more recently being chased for mobile phones / tablets she had on contracts
- Does not feel obliged to pay off debts, because she can't afford to – credit is 'free stuff'
- Payday loans started around Christmas time a year or so ago
- Borrowed from different lenders so she could pay off existing payday loans
- Has reached a point where she does not think she'll be able to get another payday loan
- Total debt amounts to roughly £12,000
- Creditors are chasing her and she has been in touch with the CAB

LENDER BEHAVIOUR

- Failure to properly assess creditworthiness
- Did not check for the existence of outstanding payday loans with other lenders

THIS SECTION
IS ORGANISED
INTO THE
FOLLOWING
PARTS:

The consumer experience of payday loans

- Consumer Awareness
- Choice and Decision-making
- Application, Explanation and Terms and Conditions
- Process and Payment
- Resolution or Exit
- Customer Commentary and Feedback

Issues around payday lending

- Consumer-driven Issues
- Firm-driven Issues

Payday Loans – Key findings

5.2.1 THE CONSUMER EXPERIENCE OF PAYDAY LOANS

Consumer Awareness

The research findings suggest that levels of consumer awareness around payday loan products are varied. Across the three products that were the focus of this research project, payday loans were by far the most well-known and widely used – of all the respondents taking part in the research, the majority were familiar with payday loans, and many of the logbook loan and debt management respondents had also taken them out. Virtually all respondents across all three product areas believed that they had a clear understanding of how payday loans work, and all recognised that payday lenders have an increasingly prominent role in the broader credit market.

Despite this high overall level of awareness, few understood the terms and conditions of a payday loan, and many had little awareness of what would happen if things didn't go to plan.

Some respondents reported that they found it difficult to distinguish between payday loan providers and brokers, or intermediaries, who connect borrowers with loan companies, usually for a fee. In several cases, individuals described how they had been surprised to be charged a fee for a referral when they had been under the impression they were taking out a payday loan.

A few respondents reported that they had been surprised to find that a charge was levied by some companies for the immediate pay-out of a loan. They felt that this was not made clear at the point of advertising, especially when lenders' advertising was framed in terms of 'instant cash', or 'need money now?'

Finally, the research found that there was some confusion around the relationship between payday loans and credit ratings. The majority of respondents knew that accessing a payday loan would be highly likely to negatively affect their credit rating. However, a few had initially been led to believe that payday loans, if repaid, could be used as a means of improving borrower credit ratings – and a couple believed that this had been communicated to them through lender advertising.

Choice and Decision-making

Some respondents such as Luke and Tina (see Pen Portraits) were more able to pick and choose which payday lenders they borrowed from. In the absence of better distinguishing features, they were likely to make decisions based on their perceived credibility of the lender, which was shaped by a range of factors. This included advertising, especially on television, general name recognition, branding, the appearance of websites, and local awareness, such as knowing the location of the lender branch in town. Others, such as June (see Pen Portrait) struggled to be accepted for loans with the more established lenders because they had failed to keep up with repayments in the past.

Choice and decision-making were also shaped by channel preference – with the majority of respondents preferring to access payday loans via the Internet. This was partly to do with speed and ease of access, but was also shaped by concerns around anonymity and secrecy. Embarrassment, shame and fear of negative reactions led some respondents to be very secretive about their payday loans, hiding their borrowing from spouses, other family members, friends and colleagues.

However, a small number of respondents preferred to take out a payday loan in a lender branch, stating that interaction with a real person made them feel that the lender was more trustworthy and that they felt more in control of the transaction.

'I just Googled "payday loans". I thought you were signing to agree to take out a loan, but in the small print, which I didn't read, it stated it was just giving me a list. They took £80 out of my account for giving me a list of people that could give me a payday loan.'

Andrea, early 40s, Newcastle, Payday Loan (see Pen Portrait)

'It's how high they came up on Google. The two I used looked professional; their websites worked and they weren't fly-by-night. The comical, cartoony name ones look like they might just disappear.'

Luke, early 40s, Swindon, Payday Loan (see Pen Portrait)

'I wouldn't even phone up and do it, I'd feel too embarrassed. I do most things online. It's faceless and takes the personal relationship out of it. I don't want to make a personal relationship with someone that's really benefitting from me.'

Male, late 20s, Birmingham, Payday Loan

'There's not an awful lot of discussion, we just need a payday loan. If we've got an outstanding one with [payday lender] we have to go to a different company.'
Andrea, early 40s, Newcastle, Payday Loan (see Pen Portrait)

Very few respondents paid attention to APR when taking out a payday loan, with the vast majority focusing instead on the final payment amount. They were more likely to conceptualise payday loans in terms of the charges and fees that would be applied than interest rates. For those that did, the differences were perceived to be small – perhaps accentuated by the large numbers involved. For the most part, this awareness of charges did not lead to an increase in shopping around for the best deals. There was a general sense that, when it comes to cost, the differences between lenders are minimal. Consumers either chose lenders based on reputation and perceived professionalism, as described above, or based their decision on the perceived willingness of the lender to agree to a loan. The latter was the case especially with those respondents in the sample who were regular payday loan users and / or had trouble making repayments and accessing new loans, such as Andrea (see Pen Portrait). This group was also more likely to look into 'lending criteria' such as whether references or employer details would be requested upon application.

Application, Explanation and Terms and Conditions

The majority of respondents described the process of setting up a payday loan agreement as quick and easy – for first-time users often surprisingly so. This was particularly emphasised by respondents who accessed payday loans online, who frequently made statements to the effect of, 'and the money was in my account in 15 minutes!' Respondents reported that it was not difficult to supply the lender with the information they required for their eligibility checks, which varied from lender to lender, but generally covered proof of identity, address and income. In some cases, this could include benefits, much to the surprise of the applicants.

Most respondents commented that lenders did not ask for evidence of outgoings, and explained that it was not difficult to access loans from multiple lenders simultaneously. They felt that the most thorough checks consisted of verifying debit card details. Sometimes, applicants would be asked to provide an employer phone number, which many felt quite apprehensive about, as they wanted their payday loan to remain a private matter. Respondents explained that they believed that lenders would make a phone call to verify their employment status. In a couple of cases, in-branch applicants explained that the lender had phoned the number provided and hung up when the phone was answered. Respondents who had applied online were often uncertain as to whether this particular check had been followed through.

Generally, online applicants reported that once they had an account with a lender, they did not have to resubmit personal information for subsequent loans, whereas some of the in-branch applicants were required to do this even for repeat custom.

Many respondents reported that they were not completely aware of the full terms, conditions and cost of the loan at the point of application. Some readily admitted that they did not read the small print and 'just ticked the box'. Some also felt that they were asked to enter personal details – either online or in the branch – prior to receiving detailed information about the loan agreement. A few in-branch respondents reported that they were not allowed to remove loan application forms from branches, which contributed to the feeling that the loan was being entered into without a full understanding of the terms and conditions or an ability to check back later.

Finally, many respondents, especially those more frequent payday loan users, noted that they were often offered loans at a higher amount than originally requested and sometimes tempted or convinced into taking the additional money.

Process and Payment

Respondents experienced a range of 'consumer journeys' once the loan had been taken out. Whilst some were very cautious users who paid back the loan on time and in full, others struggled to keep up with repayments, and the majority had 'rolled over' a loan, or had it extended or re-contracted. Tina and June (see Pen Portraits) represent these two extremes. Tina only used payday loans occasionally, and almost always managed to pay off the loan in full at the end of the loan period. June, however, had never intended to pay off her loan in full, and had rolled over, paying off the interest by taking out loans with other lenders, for as long as she could. At the time of the interview, June was being chased by debt collection agencies who had taken over her payday loan debts. Only a few payday loan respondents had actively sought the option of rolling over or extending, but the majority reported that this information had been volunteered to them by the lender – though often not at the point of taking out the loan, but further down the line when the repayment date was imminent. Many consumers described how at the point of rolling over or extending, they started to lose track of how much they had borrowed and the total amount of interest to be paid on a loan, only ever thinking of the 'fee' that they were paying on that month's rollover, rather than the total cost of accumulated fees.

A significant number of consumers reported that they had been surprised at the timing and / or amount of money that was taken out of their account by payday lenders. These respondents had been unclear

'They check for signatures, driver's licence/passport, proof of residency, bank statement, your address for the last six months. They're very rigorous and they'll keep asking you the same questions so they're really 100% certain they're going to get their money back.'
Male, mid 40s, London, Payday Loan (in-branch applicant)

'I just got into this cycle of repaying the loan, then taking out a new one right away.'
Andrew, early 20s, Leeds, Debt Management Plan (non-fee-charging) (see Pen Portrait, Section 6)

'Because I've had quite a few loans with [payday lender], my trust rating is high because I've always paid them back.'
Male, early 30s, Leeds, Payday Loan

'When you set up a plan, you don't really hear, you just assume the money's going out of your account like a direct debit. They don't email or text now, I guess they don't want my business anymore.'
Tina, early 20s, London, Payday Loan
(see Pen Portrait)

'You can't have a society where people are just getting free money. But they know you're going to be vulnerable. If someone stopped them, stopped you, and said, "can you really pay this back and how long will you be paying it back for?" the honest response would be "I don't know".'
Male, early 30s, Oldham, Payday Loan

about the existence of a Continuous Payment Authority (CPA), which authorises the lender to withdraw payments, and / or the withdrawal of part-payments under the CPA.

Finally, some respondents felt that they were given preferential rates and / or higher limits by lenders due to frequent use and prompt repayments. These respondents felt that they were 'trusted borrowers' – and in some cases loyalty was further encouraged by the offer of an incentive in exchange for referring a friend to the lender.

Resolution or Exit

Whilst some respondents paid off their payday loans without any problems, many others found it difficult to find an exit from or a resolution to the loan agreement. For some, this was because they struggled to terminate the loan, finding it easier to continually roll over than pay it off once and for all. For many others, it was because they failed to make repayments, necessitating negotiations with lenders. In these situations, the quality of communication with lenders was varied, with some respondents reporting that they struggled to make contact with the lender at this point. Some payday loan respondents had eventually been helped to pay outstanding balances by friends or family, whilst others had ended up negotiating repayment plans with the lender or making payments to a debt collection agency.

It was common for respondents to receive sales and marketing contact upon termination of the loan, as well as throughout its duration, especially if they had a good repayment record.

Customer Commentary and Feedback

Overall, most respondents recognised that payday loans have a role to play in the broader credit market, and felt that it made sense that people with poor credit histories should be charged higher interest rates on their loans. At the same time, there was a strong sense that the interest rates charged by payday lenders are too high and that, in practice, it is a form of borrowing that can quickly become unaffordable due to the potential to roll over / extend – which is often perceived to be unclear at the point of taking out the loan – and the limited forbearance options available when repayment becomes difficult.

Ultimately, the vast majority of respondents made it clear that they accessed payday loans because they did not have many alternatives. The fact that payday loans are quick, easy to access and discrete facilitated this form of borrowing, but for most, these were not the key motivating factors at play in the decision-making process.

It is important to point out, however, that a small minority of respondents actively favoured payday loans over other forms of credit, notably credit cards. This was because they felt that payday loans, which they viewed as short-term credit, made it easier to self-police spending behaviour than credit products which are more explicitly geared towards the long-term.

5.2.2 ISSUES AROUND PAYDAY LENDING

The research suggests that there are a number of issues or 'problems' that characterise payday lending and borrowing. These are reviewed below under the headings of 'consumer-driven issues' and 'firm-driven issues'. It is, however, important to note that, in many cases, these are two sides of the same coin – behaviours or characteristics that reinforce one another. An obvious example is consumers not telling the truth about their financial circumstances in order to qualify for a loan on the one hand, and lenders not carrying out robust eligibility checks on applicants on the other.

Consumer-driven Issues

- Rationale, Knowledge and Decision-Making
 - The research found many cases of problematic money management and financial prioritisation – e.g. consumers who 'struggled' to pay their bills yet had been on multiple holidays within the last year. Several respondents were also clearly accustomed to a standard of living that was beyond

'If I hadn't been able to get the payday loans, I probably would have lived within my means. Mum always preaches at me, saying things like I could have waited and bought a house instead of renting.'
Male, mid 20s, London, Payday Loan

'I'd try and sway the assessment in my favour, really, so I had more chance of being approved. Toning it down and giving the impression that I had the ability to pay it back quite easily when I was actually struggling.'
Male, mid 30s, Cheshire, Debt Management Plan (fee-charging)

'I don't remember anything being said about increasing or extending.'
Female, early 20s, London, Payday Loan

'They do this, "you haven't borrowed 100% of what you could have" thing – they do want you to borrow more.'
Luke, early 40s, Swindon, Payday Loan (see Pen Portrait)

'They do not want you to see the truth; they want to avoid you reading things. They never tell you how much the interest rate is, they just tell you how much you can have, so there's no such thing as an interest rate.'
Male, mid 40s, London, Payday Loan

their means, and consistently relied on various forms of credit, including payday loans, to finance this lifestyle.

- Some respondents had carried out very limited research into different credit options, their terms and conditions, and how they compared to one another in both the short and long term.
- Consumers prioritised speed over cost – in some cases, patience, time and effort could potentially have yielded other options.
- Many respondents who took out payday loans were overly optimistic about their ability to make repayments, focussing only on the short-term.
- A few respondents' decision-making was fuelled by problematic behaviours such as drinking or gambling; for example, applying for loans while drunk or otherwise incapacitated using Internet or mobile phone apps.
- **Borrowing Process**
 - Some respondents admitted to manipulating eligibility criteria, especially in online applications. This often included not disclosing how many outstanding loans they had with other payday lenders.
 - A few respondents actively sought to avoid repaying loans, for example by changing bank accounts and / or applying for new debit cards.
 - Some respondents actively avoided communicating with the lender about the loan, refusing to answer phone calls and 'burying their heads in the sand'.

Firm-driven Issues

- **Awareness and Advertising**
 - The research found some evidence of misleading selling techniques by brokers or intermediaries, resulting in consumers unknowingly signing up for payday lender referrals rather than actual loans.
 - Some lenders were found to charge for the immediate pay-out of the loan without making this clear in their advertising.
 - Some consumers were led to believe that payday loan use could be a means of improving a poor credit rating.
 - Payday loans were often depicted by lenders as a short-term, capped form of credit, with the possibility of rolling over / extending often not disclosed to the consumer in advertising / at the point of taking out the loan.
- **Application Process**
 - Respondents felt that lenders carried out limited assessments of consumers' financial circumstances and ability to repay loans. This included checks on whether applicants had outstanding payday loans with other lenders.
 - Assessments were felt to be too easy to manipulate, especially in online formats, where individuals could 'test' loan levels and 'tweak' their income and outgoings, thereby increasing the amount they were eligible to borrow.
 - Some consumers were surprised that there were minimal safeguards around taking out loans when they had been drinking or not of sound mind, especially when these were accessed using mobile apps.
 - There was some evidence to suggest that proper credit checks were not being conducted by all lenders.
 - Lenders were frequently found by respondents to offer loans at higher amounts than requested by the applicant. In some cases, this was accompanied by overt pressure on the borrower to accept the higher amount – especially during phone conversations with the lender.
 - In some cases, it appeared that lenders failed to clearly communicate important information about the terms and conditions of the loan to the borrower. This included the option of rolling over / extending, as well as the function of a CPA and how it differs from a direct debit agreement. There was a general lack of clarity around the consequences of defaulting on a loan, with only the 'best case scenario' directly presented to the consumer.
 - The research also found evidence to suggest that some lenders require consumers to agree to potentially unfair terms and conditions, notably that in the event of default, the payday loan would be exempt from inclusion in a debt management plan or an Individual Voluntary Arrangement (IVA).

■ Lending Process

- Several respondents reported CPA errors where firms had withdrawn the wrong amount, or on the wrong day.
- Lenders were found to encourage the rolling over or extending of loans shortly before final payment was due, using persuasive language implying that there is little requirement to repay in full. This communication tended to come late in the payday period when the consumer was likely to be short of cash, and rollovers were often positioned as an alternative repayment option. This was the point at which consumers became most likely to lose track of how much they had borrowed and the total amount of interest payable on the loan.
- Some consumers were actively discouraged to terminate the loan, with lender tactics such as 'imagine what you could spend the money on'.
- There was also some indication that payday lenders may be circumnavigating proposed rules around limits on payday rollovers by offering simple 're-contracting' arrangements which function in the same way from the consumer's perspective.
- Some consumers reported that they struggled to make contact and communicate with lenders during the loan period, for example being asked to phone back on specific days and to foreign numbers. Some lender websites only listed the number of the financial ombudsman under their 'contact information' section.
- Lenders' forbearance options were not easily identifiable and rarely communicated to the borrower either before or during the loan period.
- Some lenders were alleged to behave in an aggressive or threatening manner when borrowers ran into problems with repayments.
- Lenders engaged in sales / marketing techniques both during and upon termination of the loan. This was often found to cause considerable annoyance and stress to the consumer.

'They're very aggressive if you can't do it and you don't tell them. That's something they don't tell you. It's in the small print. They'll keep attacking your account until you get money [in the account].'
Male, early 30s, Leeds, Payday Loan

PAYDAY LOAN ISSUES

Consumer-driven Issues

Firm-driven Issues

Frequency increasing →

← Frequency increasing

Journey stage

Awareness & Decision-making

Problematic money management and financial prioritisation

Limited research into different credit options and terms and conditions

Fast purchase risks less shopping around

Over-optimism about the ability to repay the loan

Decision-making fuelled by problematic behaviours such as drinking or gambling

Appeal of loan driven by short term lending, limited awareness of consequences of 'rolling over' / extending

Misleading selling techniques by brokers or intermediaries selling referrals

Hidden charges for immediate pay-out of the loan

Consumers led to believe that payday loan use could be a means of improving a poor credit rating.

Application

Manipulation of eligibility criteria, especially in online applications

Perception of limited assessment of consumers' ability to repay loan

Easily manipulated online application formats

Perception of incomplete credit checks

Unclear terms and conditions

Amount of loan offers higher than that requested by the borrower

Minimal safeguards when not of sound mind

Requirement to agree to potentially unfair terms and conditions

Process & Payment

Avoidance of loan repayment

Encouragement to roll over or extend loans shortly before final payment was due

Avoidance of lender communication about outstanding loans

Continuous Payment Authority (CPA) errors

No ability to contact/communicate with lender

Discouragement of loan termination

'Re-contracting' offers in lieu of 'rollover/extension'

Perceived lack of forbearance options

Resolution & Aftermath

Unwanted sales / marketing techniques during period of loan and upon its termination

Aggression at point borrower struggles to repay

PAYDAY LOANS – KEY FINDINGS

- Overall, payday loans offer a number of benefits to consumers such as speed, ease and access to credit.
- The majority of respondents accessed payday loans because they had few alternative credit options.
- They needed the money for a range of different reasons – in a few cases, this was connected to poor money management and financial prioritisation.
- Lenders often engaged in unwanted marketing practices, such as emails, texts and phone calls.
- Consumers' shopping around was limited, with little attention paid to expense, and more focus on brand awareness, reputation and the feel of the website.
- Accessing a payday loan was often described as 'surprisingly easy', with limited checks in place.
- Borrowers were often unclear about important aspects of the loan agreement, such as the cost of rolling over / extending, and the role of CPA.
- Lenders actively encouraged consumers to rollover / extend.
- Consumers were frequently surprised by some aspects of the borrowing process, primarily the ability to rollover / extend and the additional cost that this could incur.
- As a result, many ended up in 'cycles' that they struggled to break out of.
- Lender-borrower communication was often minimal, with consumers struggling to make contact and negotiate forbearance options.

5.3 LOGBOOK LOANS

A logbook loan is a loan secured against an automobile for an average period of 12–18 months. The loan is analogous to a pawn-broking arrangement, whereby full ownership is returned after the loan has been repaid. In contrast to 'pawned' items, however, as long as the borrower keeps to the repayment schedule, he or she continues to maintain and drive the vehicle.⁶

Overall, the logbook loan respondents were fairly homogenous in terms of their borrowing behaviour, although there was variation around attitudes towards debt and money management in general. Many had taken out loans around the £1500 mark, and were paying them off over a period of approximately 78 weeks. It is worth noting here that the logbook loan market appeared to be relatively small, and the research encountered a limited number of providers, with a few dominating the sample. The majority of respondents had only taken out one logbook loan, several had taken out two, but no one had taken out a larger number. Perhaps most significantly, almost all logbook loan respondents had opted for this product because they felt that they needed a lump sum – generally more than £1000 – a greater amount than they often perceived to be available to them elsewhere in the consumer credit market.

Respondents needed this money for a number of different reasons. Most were dealing with broader financial challenges such as servicing other debts or attempting to consolidate, variable income patterns, periods of unemployment or sudden income shocks, or unexpected bills or other expenses. A few needed the money for life events such as going on holiday, moving house or Christmas spending, and a minority were engaged in problematic behaviour such as excessive drinking or gambling. Overall, respondents in the logbook loan sample were from similar social and economic backgrounds to respondents across all three product areas. However, there were slightly fewer respondents in the FCA Segment 8 – Hard Pressed category – and more respondents who had slightly higher income levels. This is perhaps explained by the fact that all of these respondents had a car that was valuable enough to borrow a substantial amount of money against.

There was an interesting division within this group between the majority who had limited credit options and a very small minority who had not attempted to access credit elsewhere. The former had been rejected by more 'mainstream' credit providers – or had very good reason to believe that they would be – and had often chosen a logbook loan over the main alternative, a payday loan, because they needed a larger amount of money. However, a very small percentage of the sample had not attempted to access many other forms of credit and felt at the time that a logbook loan was the best option for meeting their personal credit needs.

Below are four logbook loan respondents, who have been selected as case studies because, together, they demonstrate the variety of experiences recorded by the research in relation to logbook lending.

'I took it out to compensate for my wife stopping child support payments. I intend to pay it back soon. The payments have restarted now...'

Male, mid 40s, West Yorkshire,
Logbook Loan

'I did look at different options. How easy and quick it was to get a loan. I found banks quite difficult to get loans from. And I chose not to have a credit card, because the problem I had when I had one was I was using it to take out money to gamble.'

Male, mid 40s, Surrey, Logbook Loan

⁶ Further definitions and key terms relating to logbook loans can be found in the Glossary (Technical Report, Section IV).

SINEAD

PROFILE

- Separated
- College student + part-time carer

'That's what my problem was, my credit rating was not good, so I knew I didn't have options, only the likes of this kind of loan...'

AGE

25–29

LOAN AMOUNT

£3,300

LOCATION



HOUSEHOLD



BACKGROUND

- Historic debt – credit card, personal loan and catalogues – uses payday loans occasionally
- Main motivation for taking out a logbook loan was the lack of credit checks
- Told that first payment wouldn't be due for two weeks, received a letter within the first week saying she had missed a payment
- Phoned to complain, was told that first payment was due in the first week
- Managed to make double payment, but it was difficult
- Repaid for a few weeks, then realised she couldn't keep up the payments
- Frequent threats of repossession; has managed to talk her way out of it on several occasions and set up new repayment plans
- Has had the logbook loan for three years, likely to continue for another two years

LENDER BEHAVIOUR

- Application process quick and straightforward
- Information provided verbally did not correspond to written terms and conditions
- Threatened to repossess on several occasions, agreed to renegotiate new payment plans

NICK

PROFILE

- Married
- Plumber + college

'Got a text saying "Did you know you might be able to get more money released against the car?" When I went in to make a payment, I asked them and they said yes, because you've shown you can make the payments.'

AGE

25–29

LOAN AMOUNT

£900

LOCATION



HOUSEHOLD



BACKGROUND

- Has been taking out payday loans for a while, struggles to stay on top of payments
- Also had an overdraft and a credit card; latter is with a debt collection agency
- Very poor credit rating, can't get a phone contract
- Car broke, needed money to fix it
- Logbook loan for £900 – walked passed the shop every day
- Went to Citizens' Advice as he couldn't keep on top of repayments to all creditors, including logbook
- Total debt is around £12,000
- Car was repossessed by the lender

LENDER BEHAVIOUR

- Gave him a large amount, despite his credit history – didn't ask about existing debt, but did ask about everyday outgoings
- Initial loan was for a smaller amount – lender contacted him to say they could increase it to £900
- Surrendering process was easy – but lender said that the car was in a worse condition than when loan was taken out

ROB

PROFILE

- Separated
- Engineering manager

'You don't really notice it to begin with. You're lulled into a false sense of security. £20 a week doesn't seem as bad as £80 a month.'

AGE

35–39

LOAN AMOUNT

£1000; £560

LOCATION



HOUSEHOLD



BACKGROUND

- Stable job - financial problems started when he bought his own place following separation
- Approximately £12,000 debt – credit cards, personal loan, overdraft. Has had a CCJ
- Uses payday lenders every now and then
- Poor credit history
- First logbook loan for £1,000 – thinks provider got in touch with him after he'd searched for payday lenders
- A year after he'd finished the logbook loan, he took out a second one for £560 over 78 weeks (£20.11 per week) – meaning that he paid back a total of £1,568.58 on a £560 loan
- Both logbook loans were for everyday outgoings rather than one-off emergencies

LENDER BEHAVIOUR

- Everything that was in the contract was explained verbally
- No option to pay monthly – feels like the weekly payment amounts made it seem smaller
- Lender did not stop direct debits after the first loan was paid off

MEL

PROFILE

- Single
- Team leader

'Initially I looked into high street lenders, but for various reasons I couldn't get that. I did go to my bank as well. Then I looked at a payday loan, but they're only short-term, I don't think you can get them for 12 months.'

AGE

23–27

LOAN AMOUNT

£1,500

LOCATION



HOUSEHOLD



BACKGROUND

- Currently owes money on store cards, catalogues, personal loans, and payday loans; has had credit cards and unauthorised overdrafts in the past
- Has received a CCJ and was rejected for other forms of credit
- Found loan company via a general credit shop, who recommended them
- Missed one payment due to a change in how she was paid – was surprised by extra charges
- Logbook loan finished earlier this year – overall, she feels like she had a good experience

LENDER BEHAVIOUR

- Interest was not discussed in great detail, emphasis was on the repayments
- Offered twice as much as she ended up taking, was encouraged to take more
- Was not told verbally about late charges; lender was not willing to engage when she complained

THIS SECTION IS ORGANISED INTO THE FOLLOWING PARTS:

The consumer experience of logbook loans

- Consumer Awareness, Choice and Decision-making
- Application, Explanation and Terms and Conditions
- Process and Payment
- Resolution or Exit
- Customer Commentary and Feedback

Issues around logbook lending

- Consumer-driven Issues
- Firm-driven Issues

Logbook Loans – Key findings

5.3.1 THE CONSUMER EXPERIENCE OF LOGBOOK LOANS

'I'm not sure if I even went directly onto the website, or went onto a payday site and was redirected, or if it was them passing your information to the logbook people. Actually yes, I think they contacted me.'
Rob, late 30s, Birmingham, Logbook Loan (see Pen Portrait)

'I didn't think there were other providers out there, I thought they were all the same. One company, that was their shop.'
Nick, late 20s, York, Logbook Loan (see Pen Portrait)

Consumer Awareness, Choice and Decision-Making

Individuals in the logbook loan sample tended to know very little about the product prior to taking out a loan for the first time – many had never even heard of the term 'logbook loan' before this point. Within the larger sample across all three product areas, the research found a widespread lack of awareness around the terms and conditions of the agreement, above all regarding the levels of interest commonly charged by logbook lenders.

Most logbook borrowers first became aware of logbook loans either through their association with other credit products such as payday loans – often at local branches of credit stores – or as a result of targeted marketing emails. A few had heard about logbook loans in other ways, such as through television advertising, Google searches, recommendations from friends or colleagues, and, in one instance, from consulting the Yellow Pages.

The vast majority of respondents came across the company with which they took out the loan at the same time they first encountered the product itself, with many not even considering that there could be competitors out there offering a similar product. There was often very little time lag between first becoming aware and taking out the product. Shopping around was virtually non-existent within this product area. As noted above, almost all logbook loan respondents had good reason to believe that other forms of credit were not, or were no longer available to them – with the exception for some of payday loans.

Application, Explanation and Terms and Conditions

Respondents had differing experiences of the application process and the extent to which they felt that the terms and conditions of the loan had been clearly communicated and properly understood at the outset. However, a common experience across the sample was feeling confident that the loan would be granted; consumers felt reassured from the point of first contact that they would be able to secure the loan, and felt that they were rarely informed that there was any potential for rejection. Respondents reported that because they had a car that they knew the approximate value of, they were optimistic that they would be able to secure a loan against it. This confidence was boosted following the initial telephone conversation with the logbook lender, which generally consisted of providing details about the car and the desired loan amount.

Respondents described how, by the time a representative was sent out to examine the car and go through the paperwork, they felt as though it was already a 'done deal'. They often felt that checks were surprisingly cursory. Multiple consumers had undergone the car inspection process in rather inhospitable spaces such as isolated car parks and side roads because they had chosen not to invite the lender into their home.

A number of respondents were unhappy with the set-up of face-to-face meetings, describing how they sometimes took place in borrowed, shared and impersonal office space – for example within the branch of local credit store or pawnbroker. At this point in the process, some respondents reported being encouraged by the representative to provide the 'right' information about income and expenditure that would enable them to secure the loan they wanted. For example, one respondent described how the representative who came around to visit her made several phone calls to his boss to check if it would be alright to slightly adjust her income details so that she would be eligible to pay back the loan within a shorter period of time. Many respondents recalled that the process of checking documents and going through paperwork had taken a considerable amount of time – longer than they had expected it to.

'He didn't say anything about the ownership of the car. You don't really think about it all until afterwards. I had no idea...'

Female, mid 30s, London,
Logbook Loan

'I was a bit concerned about the payments because I wanted to pay monthly but everything in the paperwork was set up on weekly payments.'

Female, mid 50s, Scotland, Logbook Loan/Hire Purchase Loan

'They didn't explain about all these £12 letters, and £30 to set this up. When I ran into difficulties in July this year, it would be £12 letters every week, so another £50 a month. I owe hundreds in that.'

Female, late 40s, Hertfordshire,
Logbook Loan

Some respondents felt that the application process was transparent and straightforward, and had no difficulty in grasping the basic premise of a logbook loan – that ownership is transferred to the lender. Many, however, felt they had received a range of mixed messages about the state of ownership of the car and the role of the Bill of Sale – and logbook loan respondents from Scotland faced further confusion around the Scotland-only practice of entering into a Hire Purchase Agreement with the logbook lender.

The vast majority of respondents revealed that they had a very limited understanding of how their loan and repayment amounts translated into APR. Almost none of the respondents knew the interest rate applied to their loan, and many were not clear about the total repayment amount. The majority reported that they had not been explicitly told what this amount would be; but of this group, many explained that they consciously avoided calculating, or even thinking about the total repayment amount because they knew that it would feel like 'too much' and cause worry, fear or distress.

Instead, the focus of both parties was on monthly or weekly repayments and whether these would be affordable for the consumer. Most logbook loan respondents made their repayments on a weekly basis, with some describing how they would have preferred to make monthly payments for budgeting purposes, but that this option had not been available to them.

Many respondents admitted that they had not really examined the 'small print' of the contracts, which they frequently felt were complex, lengthy documents, often not written in 'plain English'. Instead, many relied heavily on the conversation with the firm representative for information about the terms and conditions of the loan. Whilst some described how this individual was friendly and helpful, others felt that they had little opportunity to ask questions, that questions were often not fully answered, and that they sensed that they were not being told everything.

Process and Payment

Some respondents experienced a relatively smooth repayment process and some proceeded to take out a subsequent logbook loan with the same provider some time after the first loan had been paid off. The majority, however, ran into difficulties during the course of the repayment process. In many cases, they felt that this was due to what they perceived to be a disparity between the information that had been provided orally at the point of signing the loan agreement, and information which they only later discovered to exist in the written documentation.

For example, one respondent, Sinead, who was in her late 20s from Newcastle (see Pen Portrait), explained that she had been told at the point of taking out her loan that the first payment would be due in two weeks' time, and had planned her household budgeting accordingly. A week after taking out her loan, she received a letter from the company stating that she had already missed a payment. When she phoned the company, she was informed that the terms and conditions stated that the first payment was due the first week, and that they had no record of what she claimed she had been told in person.

A number of other respondents reported being surprised to find extra charges added on for the set-up process, for late payments and, in some instances, for letters that were sent out by the company. They could not recall these charges and fees being mentioned verbally.

In some cases, consumers perceived that these letters had been sent out due to administrative errors on the part of the lender. On some occasions, such perceived administrative errors had led to respondents receiving stressful, even threatening phone calls as well as additional charges.

More generally, consumers frequently experienced what they felt to be aggressive lender behaviour when they ran into problems. They felt that lenders were often unwilling to engage with them and tended to repeat the same basic information, giving consumers the sense that their situation was not being taken seriously. A few respondents who really struggled to keep up with payments were informed that they would need to make lump payments in order to avoid repossession of the vehicle, which were often perceived to be unfair and unaffordable. Some of these individuals came close to having their car repossessed, and a few did eventually undergo vehicle repossession or surrender.

Most respondents reported that when repayments were made regularly, lender communication was minimal. Many also found that their monthly statements only recorded payments received that month, but did not clarify remaining balances or loan end dates.

Resolution or Exit

A significant number of respondents completed their logbook loan repayments without running into what they considered to be major difficulties or incurring significant additional charges. Of these respondents, several reported that their direct debit payments did not automatically stop at the end of the loan period. Some respondents noticed this right away, but in other cases, they only realised several months later, and had to claim money back from the lender. Others still had themselves taken the initiative to cancel the

'I phoned them and said, "I haven't got my logbook yet" but they said it was definitely on its way. It was recorded delivery, and it arrived two weeks later.'
Female, mid 40s, Scotland, Logbook Loan/Hire Purchase Loan

'I was on my way to work ... a lorry was following me. I pulled in to let a bus through and the lorry came up next to me. This man was at the window, reached in and took the keys, "Can you step out of the car?" I thought it was the border force, he looked like a police officer. He told me if I found £1,200 right there they wouldn't take the car. I couldn't focus, they wouldn't let me get my stuff out of the car ...'
Female, mid 30s, West Sussex, Logbook Loan

'It was what I needed at the time. Payday loans were only short-term, and I needed something longer that I could pay off in smaller amounts.'
Mel, mid 20s, Cornwall, Logbook Loan (see Pen Portrait)

'I didn't add it up on purpose. I knew it would be a ridiculous amount.'
Female, mid 50s, Scotland, Logbook Loan/Hire Purchase Loan

direct debit payments, explaining that they were not sure whether these would have stopped anyway, but that they preferred to be on the safe side.

A small number of respondents were uncertain as to how long it would take for the logbook to be returned upon completion of the loan repayments, and reported that they actively pursued this matter.

Many of the consumers who had paid off their loan in full reported unwanted sales and marketing contact after termination of the loan, with firms encouraging them to take out new loans.

A small number of respondents had had their vehicles repossessed or had voluntarily surrendered their vehicle because they were unable to keep up repayments. Some had had a rather traumatic repossession experience, such as being pulled over on the way to work and left stranded by the roadside, whilst others, such as Sinead (see Pen Portrait) had experienced similarly stressful near-repossessions.

One respondent, Nick (see Pen Portrait), had opted to voluntarily surrender his vehicle to the lender and explained that this process was straightforward. However, he, and respondents who had had their vehicles repossessed, reported that following the surrender / repossession, it was difficult to fully gauge the ensuing sequence of events. There appeared to be some misalignment between communication from logbook lenders and the debt collection agencies charged with chasing shortfalls. Respondents were often unaware of whether the car had been sold, how much it had sold for, and whether there remained any debt outstanding. In some cases, they reported that they suspected that vehicles had been damaged whilst in holding by lenders and / or debt collection agencies.

Customer Commentary and Feedback

The research found that most of those who had taken out logbook loans had done so because more favourable credit options were beyond their reach. In many cases, payday loans remained the main alternative, but the amount respondents needed was more than what they perceived a payday company would be willing to lend them. Logbook loan respondents were far less likely to complain about the interest rates charged by lenders than respondents who had had experience of payday loans. Instead, the sample was divided between a larger group who felt that the main problem with logbook loans were the discrepancies between upfront verbal communication and complex and convoluted written terms and conditions, and a smaller group who felt that – although the process could not be described as 'positive' – it was more or less what they had expected from the outset.

This latter group, which included Mel (see Pen Portrait), was more likely to emphasise the perceived benefits to a consumer of taking out a logbook loan. This included fast access to larger amounts of cash, staggered, affordable and fixed repayments, and ease of access due to lack of credit checks. For some, it was a favourable alternative to having to sell their vehicle in order to raise the necessary cash.

Those that had had a less positive experience, on the other hand, were more likely to emphasise the lack of clarity surrounding the terms and conditions, ownership of the car and extra charges, as well as the off-putting and sometimes threatening lender behaviour throughout the entire process.

5.3.2 ISSUES AROUND LOGBOOK LENDING

The findings indicate a range of issues or 'problems', consumer-driven as well as firm-driven, that characterise the practice of logbook lending and borrowing. These are often 'chicken and egg' situations, where problematic consumer behaviour feeds questionable lender practice, and vice versa.

Consumer-driven Issues

- Rationale, Knowledge and Decision-Making
 - Many consumers had limited or no awareness of the product prior to being directed to it through marketing emails or advertising. This included a lack of understanding of the state of ownership of the car and a low appreciation of the APR rates commonly applied by logbook lenders.
 - Customers were often desperate at the point of taking out the loan, with some even being rejected for payday loans, and were unlikely to shop around and look for alternative credit options.
 - Many respondents described consciously avoiding calculating or even thinking about the long-term financial burden of the logbook loan, focussing instead on the seemingly affordable weekly payment amounts. This led to some over-optimism regarding their ability to keep up with repayments.

'I was quite truthful, though I might have bent it a little bit to make my chances better, to say that I had more money than I did. I might have said the amount of shopping I buy a week is less than I do, I might not have told them about the payday loans.'

Nick, late 20s, York, Logbook Loan (see Pen Portrait)

'All they said was, you take out the loan, and there's nothing to pay back for two months. . . . What was most important for me was [having a payment holiday].'

Male, mid 40s, West Yorkshire, Logbook Loan

'They say it weekly, and it makes it sound really cheap. But when the papers came through, that's when I noticed it was for 78 weeks, I'd thought it was only a year. There was the £60 inspection fee, but when I read the paperwork I saw there was a £60 admin fee as well. When I rang them, they said the money had already been issued. So at this point, I needed to be able to pay them £120 [on top of the loan] to get out of the agreement.'

Male, mid 40s, Cornwall, Logbook Loan

'There are situations when people need money but they need to be aware of the total. You need to be careful about missing payments because you will be hounded both at work and outside of work. The interest rate is unbelievable and you can see how people get into a real mess.'

Female, mid 30s, Northern Ireland, Logbook Loan

■ Borrowing Practice

- There was some evidence of logbook loan applicants withholding or altering details of outgoing and existing debts in order to increase their likelihood of being accepted for the loan.
- A few respondents could be viewed as having 'buried their heads in the sand', failing to inform the lender that they were struggling to make repayments and avoiding lender attempts at communication.

■ Firm-driven Issues

■ Awareness and Advertising

- Advertising was specifically targeted at people who might not be able to afford repayments and who had run out of other credit options.
- APRs were not always visible at the point of advertising, and additional fees and charges rarely so, masking the total amount a loan could cost.
- Similarly, the risk of losing the vehicle was not highlighted in advertisements.

■ Application Process

- Lenders' affordability assessments, though generally more thorough than payday lenders' checks, were questionable, as they relied on self-reported information concerning outgoing and the existence of outstanding debts. Moreover, in some cases, applicants were encouraged by the lender to provide the 'right' information.
- The application process appeared to be rushed and pressured. Respondents often reported having a visit from a lender representative very soon after making the initial phone call, at which point many felt that they had tacitly agreed to taking out the loan. Respondents were sometimes asked to sign papers on the spot, and many did not feel they had been informed about a cooling-off period.
- Fees for set-up and car inspections were sometimes non-refundable, even within the cooling-off period.
- There was some evidence that respondents were given little flexibility around the form of repayment when they met with the lender representative. Some reported that they had been obliged to agree to pay weekly, when monthly would have been more appropriate for their budgeting purposes, whilst others described how they had been asked to enter into a CPA (or equivalent) without being fully aware of the consequences.
- The research found evidence to suggest that lender representatives frequently omitted to mention the APR and the total repayment amount, often responding to consumer questions by highlighting the affordability of the weekly payments.
- The contractual documentation was often written in complicated language, with key terms and conditions buried within the lengthy small print.
- Some lenders appeared to conduct their meetings and car inspections in unprofessional locations, such as shared, impersonal office spaces and isolated car parks or side roads.

■ Lending Process

- Lender communication was often limited, with basic monthly statements that did not specify the total remaining balance or remind consumers of their loan completion date, for example.
- When consumers had repayment issues, lender behaviour ranged from uninterested and inflexible to aggressive and threatening.
- In some cases, lenders were found to behave in this manner when there was evidence to suggest that there had been an administrative error on their part.
- Lenders engaged in unwanted sales / marketing tactics upon termination of the loan, and sometimes during the repayment period as well.
- There were a number of instances where lenders had continued to take out direct debit payments after the loan had been paid off in full.
- In some cases, there was some delay and limited communication around the process of the return of the logbook upon completion of the loan.
- Some respondents experienced unprofessional and traumatic vehicle repossessions.
- In cases of repossession or surrender, there was some evidence of misalignment and miscommunication with and between lenders and debt collection agencies. This included the issue of responsibility for the car while it was in holding, as well as communication with the consumer around the selling of the vehicle and subsequent liabilities.

LOGBOOK LOAN ISSUES

Consumer-driven Issues

Firm-driven Issues

Frequency increasing →

← Frequency increasing

Journey stage

Awareness & Decision-making

- Limited or no awareness of logbook product prior to marketing emails or advertising
- Low awareness of legalities underpinning car ownership
- Financial desperation and lack of shopping around
- Focus on seemingly affordable weekly payment amounts and avoidance of full cost of loan

- Targeting of those who might not be able to afford repayments / had run out of other credit options.
- Unclear total loan amount

Low visibility in advertising of potential of losing the vehicle

Application

Withholding or altering financial circumstances to increase likelihood of qualifying for the loan

- Reliance on self-reported information for affordability assessments
- Rushed and pressured application process
- Non-refundable set-up and car inspection fees
- Use of unprofessional locations for meetings
- Complex contractual documents

Omission of APR / emphasis on weekly payment amount

Process & Payment

- Failure to inform the lender of struggle to make payments
- Avoidance of lender communication

Behaviour ranging from uninterested, inflexible, aggressive and threatening when borrowers struggled to repay

- Little flexibility around the form / frequency of repayment
- Limited, and sometimes incomplete / incorrect, lender communication

Resolution & Aftermath

- Unprofessional and traumatic vehicle repossession
- Inconsistent information / miscommunication between lenders and debt collection agencies
- Unwanted sales / marketing tactics upon termination of the loan
- Ongoing debit / withdrawal following full loan repayment
- Delay in returning logbook after loan completion

- The key benefits of logbook loans include access to credit without conventional credit checks, and a large loan amount with staggered repayments.
- The majority of respondents took out logbook loans because they had no alternative way of accessing a larger sum of money
- Most respondents came across the lender and the product at the same time, and shopping around was limited.
- Borrowers were often unclear about important aspects of the loan agreement, primarily the state of ownership of the car, and also additional charges or fees (e.g. for set-up, late payment).
- Lender preference for weekly payments often meant that the true cost of the loan was not clear to the borrower.
- Lender communication with consumers once the loan was set up was often limited.
- Repayment issues often led to aggressive and threatening lender behaviour, including vehicle repossessions.

5.4 PAYDAY LOANS VS. LOGBOOK LOANS

Within the sample, there was significant overlap between logbook loan and payday loan respondents, as many of the former group had also had experience of payday borrowing. The research found only a small number of examples of the opposite scenario – where payday loan respondents had also had experience of a logbook loan.

Interestingly, logbook loans were frequently compared to payday loans by respondents across all three product areas, with many identifying them as similarly risky and / or expensive, for example. Some respondents pointed out that the two products were occasionally advertised and promoted in conjunction with one another, especially in branches of shops that offered a whole range of credit options. Furthermore, many of the online logbook loan applicants believed that they had been directed towards the product via its connection with payday lenders, either through online searches for the latter, or through unsolicited emails from logbook loan companies.

Although a number of the logbook loan respondents used payday loans and logbook loans more or less interchangeably, there were differing views around the social acceptability of the products across the sample. Some respondents felt that logbook loans were more socially acceptable than payday loans, which are increasingly becoming the subject of widespread negative popular discourse. Others, however, felt that logbook loans were a more ‘dirty’ form of credit, compared it to going to a pawn broker, and associated it with desperation.

Despite these similarities with payday loans, logbook loan respondents differed from payday loan respondents in a number of ways. As discussed throughout Section 5, the key differences are the amount typically borrowed, and the structure and timing of repayments: payday loans are typically short-term loans, whereas logbook loans tend to involve a larger sum with repayments staggered over a longer time period.

It is important to note that the logbook loan cohort was much more homogenous in terms of borrowing attitudes and behaviours than the payday loan respondents. As mentioned above, the logbook loan market appeared to be much smaller than the payday loan market, and the research came across a much smaller number of providers. Payday loan respondents, on the other hand, accessed a wider range of lenders, and were also much more diverse when it came to their ‘borrowing mindsets’. Respondents who used payday loans can be ‘clustered’ into five broadly identifiable ‘borrowing mindsets’:

- **‘Minding the gap’** – respondents who used payday loans infrequently, adhered to the terms and conditions of the loan, repaid promptly and rarely rolled over.
- **‘Just coping’** – those whose payday loans were an integral part of household budgeting, enabling them and their families to keep their heads above water. These respondents sometimes struggled to repay.
- **‘Path of least resistance’** – respondents who had got into a cycle whereby they perceived it to be easier to roll over the loan on a consistent basis than to make a few changes to their budgeting practices in order to pay it off. These respondents did not experience any pronounced negative repercussions of having payday loans.
- **‘Payback problems’** – these individuals appeared not to have been credit-worthy at the point of taking out the loan; many were in financial circumstances that precluded the ability to pay back the loan.

“There was a big sign on the building that said “Do you need access to money, don’t want a payday loan? How about a different option, come and talk to us.”
Nick, late 20s, York, Logbook Loan (see Pen Portrait, Section 5.3)

- **‘3rd page of Google’** – these respondents may have initially been credit-worthy, but had spiralled into trouble due to ongoing cycles of multiple / simultaneous loans. Their applications for loans were gradually becoming rejected by the more ‘reputable’ lenders, as they moved down the Internet search lists, delaying the inevitable moment when no one will lend them money anymore.

There were similarly diverse ‘borrowing mindsets’ when it came to some other credit products, notably credit cards. Interestingly, payday loans and credit cards – but not logbook loans – were the most common types of debt that respondents put into debt management plans or Individual Voluntary Arrangements. The following section explores how people go about finding solutions to their debt problems by focussing first on the consumer experience of these services, and then considering potential firm-driven and consumer-driven problems identified by the research.

6 Research Findings: Debt Management Services

25 of the respondents shared their experiences of debt management plans (DMPs) and Individual Voluntary Arrangements (IVAs) with us. By design, 16 of these respondents had paid a fee to a debt management company (DMC), whilst the remaining nine had used non-fee-charging services. However, the research found that a good number of payday loan and logbook loan respondents had also had experience of DMPs or IVAs (sometimes with more than one provider), and this meant that the total number of respondents who had experience of the debt management sector was substantially higher.

Across this group, respondents differed in terms of outlook toward addressing debt, in particular the time and energy they intended to dedicate to managing it to paying it off. Attitudes and behaviours around managing debt ranged from long-term intentions to make repayments and eventually clear the debt, to the prioritisation of immediate relief, or 'breathing space' in the short-term, without necessarily thinking about a long-term resolution to the problem. These attitudes corresponded to respondents' overall perspectives on credit – which may or may not have changed following their debt problems. At one end of the spectrum, there was a professed change in attitudes towards credit and an underlying feeling that 'debt is bad' and emphatic vows to only 'spend what I have'. This was sometimes a feeling of regret and 'lessons learned' – and having gone through a DMP or IVA was a significant aspect of that journey. At the other end, the research encountered the attitude of 'I need credit to survive and / or have a good quality of life', and a desire to gain access to new avenues of credit whilst keeping monthly repayments to a minimum. This was reflected in these consumers' encounters with the debt management process.

The respondents had varying levels of debt at the point of entering into the DMP or IVA – a factor which did not appear to correlate neatly with motivations for setting up the plan. Although most respondents had debt of between £15,000 and £30,000, a few had less than £1,000, and others up to £100,000.

6.1 THE DEBT MANAGEMENT MARKET

'I looked at getting a consolidation loan, but I was too far gone, really, no one would do that, because my credit rating was already damaged.'

Male, mid 30s, Cheshire, Debt Management Plan (fee-charging)

Many respondents did not have much experience of managing their debts, and had only dealt with one provider. Others, however, had previous experience of, or had given serious consideration to, alternative debt management options such as debt consolidation loans, bankruptcy or Debt Relief Orders (DROs). A significant number had had very little knowledge of the 'debt management market' when they first signed up for a DMP or an IVA, and found out about the range of options later, often as a result of advice-seeking due to dissatisfaction with their initial provider.

Overall, there was a lot of variation in respondents' levels of knowledge of the debt management market as whole, as well as of individual products and services. Besides DMPs and IVAs – which are discussed at length later in this section – the options that respondents were most aware of were debt consolidation loans, bankruptcy and DROs. No respondents had experience or knowledge of options such as administration orders or Fast-track Voluntary Arrangements (FTVAs).

Debt Consolidation Loans

Debt consolidation loans were perceived by many to be a preferred way of dealing with debt. In particular, respondents cited the fact that taking out such a loan does not affect an individual's credit rating and that these loans are informal, flexible and allow the individual to stay in complete control of their finances without the intervention of any third party. However, it was often the case that respondents who saw this as a favourable debt management option were not, or no longer, eligible for such loans and were speaking very hypothetically.

'It would be great if those avenues of credit [the debts that had been consolidated] would then be shut down. But they're not! So what happens is you consolidate and then you go back to using that credit card again...'

Female, mid 40s, London, Debt Management Plan (non-fee-charging)

'The consolidation loan didn't teach me a lesson enough to not go back there, but after this, I'm going to be stuck for six years with a DMP on my credit history.'
Female, early 30s, London, Debt Management Plan (non-fee-charging)

Other respondents, for whom debt consolidation loans were a real option, or who had undergone debt consolidation in the recent past, felt that debt consolidation would not put a stop to their cycle of debt. These respondents were more likely to emphasise why, in practice, and for them at least, debt consolidation loans were not an effective way to manage debt.

Respondents quoted here argued that the problem with consolidation loans was precisely their informality and flexibility – and above all that they don't impose restrictions or limitations on spending behaviour. Because a consolidation loan does not affect an individual's credit rating, taking on more debt is possible. Some respondents indicated that they believed it would take a lot of willpower and self-discipline to successfully manage debt issues with a consolidation loan and not fall back into old habits.

Bankruptcy

'I'd die a death, I'd rather jump off the M42 bridge than be declared bankrupt, because that's failure to me. I don't want to owe anybody anything that I can't afford to pay back. We're just very straight like that.'
Female, late 30s, Birmingham, Debt Management Plan (non-fee-charging)

Although very few respondents had gone through a bankruptcy, the vast majority had some idea of what the process involved, and a number had given it serious consideration as a potential solution to their debt problems. The main perceived attractions of a bankruptcy were the fact that all debt is written off and that the debtor is protected from creditor enforcement action.

However, respondents were highly aware of the stringent conditions associated with the process, including the rolling of assets, including property, into the bankruptcy, the impact it could have on individuals employed in certain professions, the long-term mark on an individual's credit report, and the public listing of the individual's name in the Insolvency Directory. Other perceived disadvantages of going bankrupt included the cost of filing for bankruptcy – up to £700 at the time of writing this report – and the severe limits imposed on spending during the 12 months until the bankruptcy is discharged. Overall, respondents felt that bankruptcy was too 'extreme' a solution for their problems. Importantly, many associated going bankrupt with 'giving up' and 'losing face' – and believed that it was shameful and immoral to go down this route.

Debt Relief Order (DRO)

The DRO lasts for one year. Everything is frozen and as long as two or more creditors agree they all have to. It is run by a consultancy practitioner.'
Male, early 30s, Cornwall, Debt Management Plan (fee-charging)

Only a few respondents knew what a DRO was – and those that did had generally been directed towards it by an independent advice provider such as a Citizens Advice Bureau (CAB) following an unsatisfactory experience with a DMC. In most cases, these respondents found that a DRO was the best fit for their particular situation – a less 'extreme' and less costly version of bankruptcy for those with no assets, very little disposable income and a relatively low amount of debt that had nonetheless become unaffordable.

6.2 DEBT MANAGEMENT SERVICES

For the purposes of this report, a debt management plan (DMP) is a non-legally binding agreement arranged by a debt management company (DMC) or organisation, which acts on behalf of borrowers to help them to clear their debts.⁷ They do this by entering into direct negotiations with creditors in order to facilitate the repayment of debts, often bringing down or freezing interest payments. Many DMCs charge clients a fee for their services.

An Individual Voluntary Arrangement (IVA) is a legally binding agreement with creditors arranged by an Insolvency Practitioner, who negotiates with creditors, and manages their payments. Typically, an IVA is finished after five years, with any remaining debt wiped.⁸

'It's down to my husband being self-employed. Before that he was working full time and we had two salaries in the house. We probably had £5000 in the bank every month. When he went self-employed, mine was the only one that was guaranteed. It made things difficult.'
Female, late 30s, Rochdale, Debt Management Plan (fee-charging)

The research findings indicate that people may set up a DMP or an IVA for a range of different reasons. Within the sample, the main distinction was between people whose debt manageability had been affected by a sudden income shock and people whose debts had been mounting and gradually becoming unmanageable over a period of time. It is important to note that respondents who experienced income shock often had existing debt which they had been able to manage prior to a significant change in circumstances.

For many respondents, setting up a DMP or IVA was part of longer-term financial plans and was often described in terms of a serious life change – 'getting my life back on track', for example. For others, debt was one of many challenges they were facing in life, and debt management was a means of keeping things under control for the time being. A few viewed debt management options as a means of actively managing

⁷ Debt management plans may also be set up by individuals without the help of an intermediary.

⁸ Further definitions and key terms relating to debt management plans and IVAs can be found in the Glossary (Technical Report, Section IV).

and deflecting creditors whilst also keeping repayments to a minimum. The best example of this was Victoria (see Pen Portrait), who had ended up in a DMP (non-fee-charging) because one of her creditors had advised her to do so. She believed that setting up the DMP would involve making repayments to this particular creditor only, and was surprised when the DMP provider wanted details of all of her other debts, incomings and outgoings.

Respondents also varied greatly in terms of their experience of coping with debt. This ranged from high levels of stress and anxiety, which in some cases were connected to mental health issues, on the one hand, and to irritation and annoyance with creditors on the other.

Throughout this section, the range of experiences of debt management services are partly illustrated with reference to four respondent cases studies, which are introduced below.

ANDREW

PROFILE

- Single
- Student + part-time job

'It was very much one ended – they were asking closed questions, so I didn't have an opportunity to ask anything.'

AGE

20–25

LOAN AMOUNT

£600



LOCATION



HOUSEHOLD



DMP FEE & TYPE

No fee provider
Payday loan

BACKGROUND

- Single payday loan – deposit for student accommodation and misjudged ability to repay
- Found a DMC via an Internet search
- Called, signed up, then did some more Internet research and realised there were free services
- Cancelled within cooling-off period, signed up to non-fee-charging provider
- Very satisfied, on track to clear debt in the next few months
- Severely regrets payday loan, credit rating is shot, never wants to get into debt again

PROVIDER BEHAVIOUR

- Limited opportunity to ask questions (fee-charging DMC)
- Caveated non-fee-charging providers (fee-charging DMC)
- Attempted to sell other financial products (non-fee-charging provider)
- Enabled personal control over negotiations with creditors directly (non-fee-charging provider)

VICTORIA

PROFILE

- Married
- Nurse

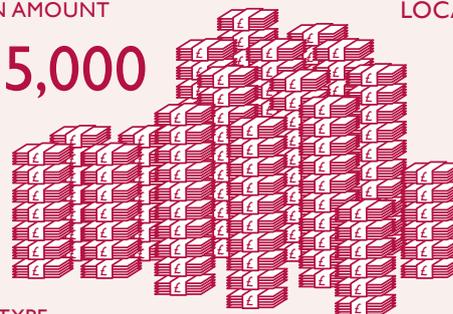
'I'd be like "why are we scrimping and saving when we could get hit by a bus tomorrow?" That's always been my attitude when it comes to money...'

AGE

30–35

LOAN AMOUNT

£15,000



LOCATION



HOUSEHOLD



DMP TYPE

No fee provider
Credit cards, Personal loan, Catalogues, Store cards

BACKGROUND

- Living beyond means and careless with money – has a long history of debt
- Previous failed DMP with non-fee-charging provider
- Put in touch with second non-fee-charging provider by one of her creditors
- Unhappy when she realised she would have to deal with all her debts
- Stopped paying after a few months; too much money going out and Christmas approaching

PROVIDER BEHAVIOUR

- Made it clear that she needed to put all her debts into the DMP – even though she wasn't ready to pay them all off
- Strict assessment – every outgoing needed to be accounted for
- Provider removed opportunity to negotiate directly with creditors

KATE

PROFILE

- Married
- Support worker

'They wanted me to start paying extra a week so they could take their money out. So it went up from £21 to £29 something.'

AGE

35–39

LOAN AMOUNT

>£1,000



LOCATION



HOUSEHOLD



DMP TYPE

Fee charging provider
Payday loan

BACKGROUND

- Struggles to make ends meet and has taken out numerous payday loans
- Started looking into DMPs and after speaking to a friend, was sent an email by DMC
- Agreed a repayment plan, repayment amount increased after DMP started
- Made repayments, after a year phoned to ask how much was left; was told she now owed well over £20,000 because of the interest accrued on the debt
- Went to CAB, who advised her to stop paying and are offering assistance

PROVIDER BEHAVIOUR

- Hidden negotiations with creditors – she did not know what was happening
- Told that the interest on her payday loans had been frozen – misled by her DMP provider
- Given a false sense of security about her loan repayments – meaning she didn't chase the DMC and the amount skyrocketed to well over £20,000

LOUISE

PROFILE

- Married
- Unemployed, disabled

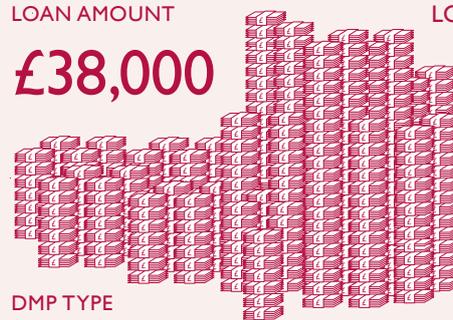
'I was stuck in the middle, ringing the creditors, who said they weren't being paid, and ringing [DMC], who were adamant that they were. I just didn't know where I was...'

AGE

32–37

LOAN AMOUNT

£38,000



LOCATION



HOUSEHOLD



DMP TYPE

Fee charging provider
Credit cards, Personal loan, Catalogues, Overdraft

BACKGROUND

- Unable to work due to long-term illness
- Long history of debt, including several re-mortgages
- Found DMC after a panicked Google search; signed up for DMP
- Creditors continued to contact her complaining they were not being paid
- DMC insisted they were – she didn't know who to believe
- Stopped paying, now seeking help from CAB

LENDER BEHAVIOUR

- Reassuring, helpful sales tactics
- Failure of lender to pay and/or communicate effectively with creditors – led to not knowing who to believe about whether creditors were being paid
- Aggressive behaviour when she challenged DMC and when she eventually stopped paying

THIS SECTION
IS ORGANISED
INTO THE
FOLLOWING
PARTS:

The consumer experience of debt management services

- Consumer Awareness, Choice and Decision-making
- Advice
- Application, Explanation and Terms and Conditions
- Process and Payment
- Resolution or Exit
- Customer Commentary and Feedback

Issues around debt management services

- Consumer-driven Issues
- Firm-driven Issues

Debt Management Services – Key findings

6.2.1 THE CONSUMER EXPERIENCE OF DEBT MANAGEMENT SERVICES

Consumer Awareness, Choice and Decision-Making

Overall, respondents had very little knowledge of the debt management market, including the exact nature of services on offer and the range of companies and organisations that provide them. They also had very limited understanding around how services could be differentiated within the market and what to look out for – meaning that even those that happened to be aware of more than one provider found it difficult to contrast and compare products and services.

Respondents were often highly stressed at the point of considering a debt management solution, and this meant that the decision-making process was often characterised by a sense of urgency. This stress and urgency combined with consumers' low awareness of the debt management market to produce a pattern of very limited shopping around and weighing up the benefits and disadvantages of different options.

The vast majority of respondents entered into a debt management arrangement with the first provider they happened upon. Many had been directed towards this company or organisation through a recommendation from a friend, family member or colleague, whilst others had seen the debt management service advertised on TV or elsewhere. In many cases, respondents were attracted by claims that they might be able to 'reduce debt by 70%'. A few had simply undertaken a basic and usually rushed Internet search. Many 'no fee' DMP respondents had been directed towards StepChange or PayPlan – the two main DMP providers that do not charge for their services – by their creditors, or upon receiving independent advice, for example from the Citizens Advice Bureau (CAB) or from moneysavingexpert.com. Finally, a small number of respondents found out about a DMC via targeted marketing phone calls or emails.

Advice

The research found that advice-provision on the part of the debt management provider played an important role in the decision-making process. This occurred primarily because many of the respondents required help urgently, and were happy and relieved when someone appeared to understand their situation. Most respondents were their household's financial decision-maker, and some were hiding debt from close family and friends. In many cases, the debt management provider representative or salesperson was the first person that they had spoken to about their debt – the first person to provide an opinion, present them with an option and offer them any form of advice. Many explained that they had no reason to doubt what they were told, and that they experienced a similar feeling as when visiting the doctor.

This was the case with Louise from Plymouth (see Pen Portrait), who contacted a DMC following a panicked Google search. She explained how, up until this point, she had not spoken to anyone about her debt problems, and welcomed the advice provided by the DMC rep, who she felt was sympathetic to her situation and knowledgeable about potential debt solutions.

Others, however, found the advice less satisfactory. Sometimes, this was because they had an existing idea of the type of solution they were looking for, and felt that they were being directed towards an inappropriate product.

In other cases, even when they had very limited knowledge of different options, respondents felt that the provider's representative was being 'pushy' or trying to pressure them into making a decision. One

'I think there was an advert on the TV to help with managing debts. I gave them a call. I also spoke to my bank who also put me in touch with a company that might be able to help, but I just felt more drawn towards the TV one.'
Female, early 30s, Oldham, IVA (fee-charging)

'I rang one credit card and said, "I'm not going to be able to pay this". They said, "You need to contact StepChange," and gave me the number.'
Female, late 40s, Nottingham, Debt Management Plan (non-fee-charging)

'All different kinds of debt management people were contacting us. It was all the same basically, "We can write up to 80% of your debt off, we can do this, we can do that."'
Kate, mid 30s, London, Debt Management Plan (fee-charging) (see Pen Portrait)

'I contacted [DMC] in November 2012. I had had enough, it was horrendous. Not able to answer my phone, emails every day. My anxiety flared up.'
Male, mid 30s, Cheshire, Debt Management Plan (fee-charging)

respondent, Andrew (see Pen Portrait) made it clear that he felt pressurised and uncomfortable during the phone conversation with the DMC – so much so, that after having signed up for the plan, he started to look into alternatives, found out about non-fee-charging DMPs and cancelled within the cooling-off period. In other cases, however, it was not always clear whether respondents came to feel this way in hindsight, only after things had started to go wrong.

Application, Explanation and Terms and Conditions

Most respondents found the process of actually applying for and setting up the DMP or IVA swift and straightforward. Overall, respondents felt that providers emphasised getting debt under control by making ‘affordable monthly payments’ to creditors. This was especially the case with the fee-charging debt management providers. Respondents who were with these providers described little upfront discussion of fees and charges. In most cases, they were made aware that there was a charge for the service, but not told about immediate front-loaded charges or set-up fees. In some cases, respondents were made aware of both, and in a few cases, respondents were not directly informed that the provider would charge a fee for the service at all.

The process of submitting the relevant information in order to set up the DMP or IVA was also mostly described as straightforward. Providers asked respondents to provide details of all of their debts, as well as monthly income and outgoings. In some cases, respondents reported being questioned or challenged about their income and expenditure information. The fee-charging DMCs were more likely than the non-fee-charging providers to encourage individuals to underestimate how much they spent every month, or list lower amounts, whereas the providers of a free service were more likely to double check that every outgoing had been accounted for.

Process and Payment

Once the DMP or IVA had been set up and repayments were underway, respondents reported a range of different experiences of the repayment process. Overall, respondents who were with non-fee-charging debt management providers had positive experiences making repayments. In almost all cases, these proved to be affordable over the long-term. One respondent, Victoria (see Pen Portrait), stopped her non-fee-charging DMP not long after it was set up – but this was more to do with her general attitude and behaviours around credit and spending than with the actual affordability of the plan.

A few of the non-fee-charging DMP respondents reported that they would have liked to have had more direct contact with their creditors so as to be more in control of their finances and debt. A few who were aware that a third party is not necessary in order to set up a DMP suggested that, with hindsight, this might have been a preferable arrangement, and one respondent, Andrew (see Pen Portrait), was in fact able to contact all his creditors directly using template documents supplied by the debt management organisation he was working with.

Respondents who had DMPs or IVAs with fee-charging providers had a much more varied experience. A few found the repayment process to be simple and affordable, and did not run into any difficulties along the way. Overall, however, many felt that the process had not been what they expected, and were disappointed with some aspects of the service.

One of the most common issues reported by respondents was the poor communication once the DMP or IVA had been set up and the paperwork sent back. In one instance, one respondent, Kate (see Pen Portrait), explained that the agreements had all been verbally communicated to her on the phone, and that there had not been any written documentation. In most cases, however, respondents had received some paperwork, but were not quite sure what was supposed to happen after it was sent back.

One of the biggest areas of confusion was around the status of negotiations with creditors. Respondents were frequently unsure as to whether negotiations with creditors were taking place and what the content of the negotiations might be – including whether or not interest on debts would be frozen. They were also unclear as to whether they should be communicating directly with creditors, whether creditors had the right to contact them directly, and to what extent it was the DMP or IVA provider’s duty to keep both parties updated.

The biggest concern around creditors was that they were not being paid. In some cases, this was because the first few months’ fees were going to the DMC and not to creditors, but after this set-up period, payments started going through. However, a few respondents continued to have ongoing issues. One respondent, Louise (see Pen Portrait), found this particularly difficult, and reported feeling constantly caught between the creditors, who were insisting that they were not being paid, and the DMC, who was adamant that they were.

‘They kept repeating the monthly payments, saying that I’d be paying £160 a month for three years. I wanted to pay my debt back in two to two-and-a-half years max, so while I was on the phone, I calculated the total amount I’d be paying back and it came to over five-and-a-half thousand. I knew that my debts were only around four-and-a-half, and that’s when I found out that the company would be charging about £35 a month in fees.’

Female, early 30s, London, Debt Management Plan (fee-charging)

‘It’s almost like they’d sussed me out, they knew I hadn’t told them everything. I remember it was like you can’t get one step ahead of them, they were saying things like, “How much do you account for your hair?” And I thought, “I can’t tell them it’s £70 every six weeks, it’s ridiculous,” so I was like, “Hardly anything”. They were like, “Let’s be realistic, you must get your hair cut and coloured. You must buy new clothes.”’

Victoria, early 30s, Bristol, Debt Management Plan (non-fee-charging) (see Pen Portrait)

‘My creditors are still getting in touch saying that they haven’t heard from this company. When you’re on a debt management plan, I don’t think your creditors should be on the phone to you, but I’m not sure...’

Female, mid 20s, Leeds, Debt Management Plan (fee-charging)

‘I didn’t know who to believe – [DMC] or the creditors.’

Louise, mid 30s, Plymouth, Debt Management Plan (fee-charging)

'As far as I can work out, the interest has been frozen...'
Male, early 40s, Barnsley, Debt Management Plan (fee-charging)

Another major area of confusion was around the freezing of interest. Many respondents were not sure whether interest had been frozen and received vague or no communication from the DMC, such as statements laying out the total amount of debt.

In some cases, respondents discovered at some point during the repayment process that some creditors had not frozen interest. The most extreme instance of this was Kate (see Pen Portrait), who set up a fee-charging DMP to manage her payday loan debts, which had started to get out of control. When she set up her DMP, her debts amounted to less than £1,000. She made her monthly repayments for about a year, receiving very little communication from the DMC during this period. After a year, she phoned the DMC to find out how much she still owed, and was shocked to learn that her total debt had skyrocketed to well over £20,000 because the interest hadn't been frozen.

A small number of respondents discovered during the course of the repayment process that they had been signed up for something other than what they believed. Two respondents firmly believed that they had signed up for an IVA, and discovered later that, in fact, they were on DMPs. In one case, this discovery occurred when the respondent phoned the provider to say that he could no longer afford his repayments, a few months after the plan had been set up. In the other case, the respondent had been making payments for five years, and believed that she had reached the point where the remainder of her debts would be cleared, only to find that she was on a DMP and that some of her creditors had not frozen the interest – meaning that her overall level of debt had barely changed over the five years. In another instance, a respondent had been advised to enter into an IVA during a phone conversation with the DMC, and took some time to consider this option. He described how, a couple of months later, he started receiving letters about his 'failing IVA' – and realised that he had, in fact, been signed up to the IVA, without having consented to this.

'When I couldn't pay, they changed. They weren't trying to help anymore. It's almost like they became another creditor.'
Louise, mid 30s, Plymouth, Debt Management Plan (fee-charging)

A number of respondents, primarily those with fee-charging DMCs, reported that they sometimes felt uncomfortable or pressured during the repayment process. For many, this was due to unwanted additional sales pressure to purchase other financial products, such as insurance. Others, however, reported that they experienced pressure, and also sometimes threatening and aggressive behaviour, when they ran into difficulties making repayments.

Resolution or Exit

The vast majority of respondents had not completed their DMP or IVA when interviewed, and most were some way off from this point. However, some respondents from other product categories had successfully completed a DMP in the past, both with non-fee-charging and fee-charging providers. A number of the DMP / IVA respondents had exited from their agreements because things had not gone to plan. In most cases where this had occurred, it was due to the continuation of problems with creditors, as described above. Sometimes, however, it was because they had simply been unable to make the repayments which were, or had become, unaffordable.

'After that, the CAB helped me find my way. I didn't know about the Debt Relief Order until I met [CAB adviser].'
Male, early 30s, Cornwall, DMP (fee-charging)

Those respondents who ran into difficulty when they couldn't afford to make repayments were more likely to be paying a fee to their debt management provider. Their problems sometimes came about because their financial circumstances had changed since the DMP or IVA was set up. However, in many cases the repayments had not been affordable from the outset. In some instances, the provider made an effort to renegotiate a new arrangement with the individual. In other cases, respondents simply stopped paying and eventually informed the provider that they were opting out of the agreement. At this point, a few respondents experienced aggressive and threatening behaviour on the part of the DMC.

Often, respondents had sought independent advice, for example from the CAB, on the basis of which they made a decision to transition from a fee-charging DMC to a non-fee-charging provider. This was the case with Andrew (see Pen Portrait), who entered into a DMP with a fee-charging provider, but cancelled within the cooling-off period after he read about providers who do not charge for their services on moneysavingexpert.com. However, a small minority of respondents transitioned from one fee-charging DMC to another, essentially going through the same cycle a second time.

'They kept sending me emails saying, "We're sorry you've left us Kate. Please call so we can discuss the problems and you'll be able to join our plan again."'
Kate, mid 30s, London, Debt Management Plan (fee-charging) (see Pen Portrait)

Many respondents indicated that they had considered stopping their DMP or IVA, but they were not sure what the subsequent steps would be. Some felt trapped because they had passed on all their personal data and contact with lenders to the DMC, and were not sure how they could regain control over the situation. Others, such as Louise from Plymouth (see Pen Portrait), experienced renewed hard selling and / or aggressive behaviour at the point of cancellation, which could also make it more difficult to sever the relationship. Overall, even after exiting a DMP or IVA, respondents had limited awareness of other options, and were reliant on third-party advice and assistance.

Finally, following the successful exit from a DMP or IVA, some respondents reported that they continued to receive marketing emails and phone calls, trying to persuade them to sign up again.

Customer Commentary and Feedback

'I can see light at the end of the tunnel. Now I'm with the IVA the phone calls and door-to-door visits have stopped. I'm still in debt but it is so much more manageable.'
Female, early 30s, Oldham, IVA (fee-charging)

'I feel like I'm in control and managing it. It's still my debt, whereas with an IVA and bankruptcy that's it, I'm done.'
Victoria, early 30s, Bristol, Debt Management Plan (non-fee-charging) (see Pen Portrait)

Overall, respondents expressed a range of opinions and perspectives on DMPs and IVAs. On the one hand, almost everyone recognised that, in principle, a third party taking over negotiations with creditors to secure a plan of affordable monthly payments was a sensible solution to many debt problems, offering relief in a situation that was often experienced as highly stressful. Some also felt that a DMP in particular was preferable to more 'extreme' debt solutions, notably bankruptcy.

Many respondents felt that, in principle a least, it was not unreasonable to be expected to pay for this service.

Other respondents, however, emphasised that they believed that these services should only be provided free of charge. They were more likely to argue that people who were in debt should not be made to pay to get out of debt. In many cases, respondents' dissatisfaction with a fee-charging provider was closely connected to finding out about non-fee-charging alternatives – although sometimes it was more to do with unexpected costs they had encountered once the plan had been set up, as outlined above.

6.2.2 ISSUES AROUND DEBT MANAGEMENT SERVICES

'You do wonder if they should be allowed to charge for it when there's people out there doing the same thing for free.'
Andrew, early 20s, Leeds, Debt Management Plan (non-fee-charging) (see Pen Portrait)

'I didn't know about debt management plans, IVAs or anything. Everything I know came from them. I trusted them.'
Female, late 40s, Northern Ireland, Debt Management Plan (fee-charging)

'I could have been a bit more honest with [non-fee-charging DMP provider] as far as what I could afford but I just thought, "it's an interest free loan".'
Luke, early 40s, Swindon, Payday Loan (see Pen Portrait – 5.2)

'While I was on the plan I managed to get out more payday loans somehow. Bit naughty on my part, but I was desperate.'
Female, late 20s, Hertfordshire, IVA (fee-charging)

The research shows that there is a long list of problematic practices that characterise DMPs and IVAs. The majority of these are firm-driven rather than consumer-driven, although in some cases, the two are closely connected. The vast majority apply primarily to fee-charging DMCs rather than the debt management providers who do not charge customers for their services.

Consumer-driven Issues

■ Rationale, Knowledge and Decision-Making

- Many consumers had limited or no awareness of the debt management market and the options within it prior to coming across the provider with which they set up a DMP or IVA – which was often a matter of chance.
- This included a lack of knowledge as to how services could be differentiated within the market, and what kinds of factors could be usefully compared.
- Respondents often required help urgently at the point of entering into a DMP / IVA – frequently because they were highly stressed and felt unable to discuss their debt issues with others. They were often so relieved when a DMC representative offered advice that they failed to question what they were being told or consider alternatives. In most cases, consumers' limited knowledge meant that they did not know what kinds of questions to ask in the first place.
- A small number of consumers misunderstood the logic of a debt management plan, and had entered into it primarily as a means of deflecting particular creditors, rather than dealing with their overall debt problems.

■ Repayment Process

- The research uncovered some evidence of DMP / IVA respondents manipulating their personal information at the application stage. For some, this involved not being honest about the true extent of their outgoings as they were worried they would be told that they needed to cut back on their spending. In other cases, respondents overestimated their outgoings so that they would be able to keep monthly payments to a minimum.
- Some respondents acknowledged that they paid little attention to the communication and written documentation / information sent to them by the provider.
- It was not uncommon for respondents to continue to borrow money – often from payday lenders – despite knowing that this breached the terms of the DMP or IVA and could have serious consequences.
- A few respondents could be viewed as having 'buried their heads in the sand', failing to inform the provider that they were struggling to make repayments and avoiding all attempts at communication.

Firm-driven Issues

■ Awareness and Advertising

- There is some evidence that consumers experienced targeted advertising via the use of lead generators in the sales process, which was not always clear to the consumer.
- Consumers felt that fees and charges were often not clearly visible at the point of advertising.

'They said that if I went with one of the charities, I'd get a worse deal, I'd have to do all the work myself. It was also very much one-ended – they were asking closed questions, so I didn't have an opportunity to ask anything.'
Andrew, early 20s, Leeds, Debt Management Plan (fee-charging) (see Pen Portrait)

'My creditors are phoning me up saying that they haven't been paid.'
Female, mid 20s, Leeds, Debt Management Plan (fee-charging)

'When [CAB adviser] told me to cancel it, I rang them up and that is when the account holder was very aggressive and upset. It was quite a change of tone.'
Male, early 30s, Cornwall, Debt Management Plan (fee-charging)

- Application and Set-up
 - During the sales / application process, consumers indicated that DMCs blurred the boundaries between 'financial advice' and 'sales', leading consumers to believe that the DMC representative had a much higher level of financial knowledge and expertise than was the case. This contributed to consumers feeling pressurised to act on this 'advice'.
 - There is evidence to suggest that consumers were sometimes provided with inaccurate and misleading financial advice – for example, that 'you have to be on a DMP for six months before you can apply for an IVA'.
 - Respondents claimed that some DMCs actively discouraged consumers from approaching non-fee-charging debt management providers, informing them that these exist, but immediately caveating this information by stating that it would be complicated, expensive and inefficient. In many cases, DMCs failed to mention non-fee-charging debt management alternatives at all.
 - Respondents reported that salespeople would sometimes close down discussions, making it more difficult for consumers to find opportunities to ask questions.
 - Consumers overwhelmingly described a lack of clarity around fees and charges during the application process. Consumers felt that they were often not told about the breakdown and frontloading of fees, rarely told about additional fees and charges that could be applied, and in some cases were not even directly informed that there would be a charge for their services. Generally, the focus of these conversations was solely on 'affordable monthly payments', and consumers were rarely directly informed about the total amount they would be repaying.
 - There is some evidence to suggest that consumers may have been misled as to whether they were on an IVA or a DMP due to lack of clear provision of information.
 - There is some evidence that, in some cases, individuals were encouraged to maximise their level of debt prior to entering into an agreement and then 'roll everything in'.
 - There is some evidence of individuals being encouraged to lie about or manipulate their monthly expenditures. In some cases, consumers were allowed to commit to payments that they couldn't realistically afford.
 - Some consumers felt that salespeople were actively hurrying them through the process, leaving little time for thought and reflection.
 - In a few cases, individuals with low levels of debt to a single creditor were encouraged to set up a DMP with a fee-charging provider, when it would arguably have made more sense to negotiate directly with the creditor.
- Debt Management Process
 - Consumers reported that they were often kept out of the loop around negotiations with creditors, meaning that they had little knowledge of payment structure or amounts. Key areas of confusion included when payments to creditors would start, and whether creditors would agree to freeze the interest on debts. The lack of statements and progress updates made it difficult for consumers to track progress or hold DMCs to account.
 - Respondents reported that DMCs sometimes claimed that they could guarantee that creditors would agree to freeze the interest once a DMP was set up, when creditors are not, in fact, obliged to agree to this.
 - Some consumers experienced pressure to purchase other financial products with the DMC or a partner organisation after having entered into a DMP / IVA. This may potentially have been facilitated by personal data collected by the DMC during the application process.
 - Some DMCs were described as unhelpful when consumers challenged the quality of the service they were being provided and / or struggled to make repayments, with some behaving in a threatening or aggressive manner. This was especially the case at the point of consumer withdrawal from the process.

DEBT MANAGEMENT SERVICE ISSUES

Consumer-driven Issues

Firm-driven Issues

Frequency increasing →

← Frequency increasing

Journey stage

Awareness & Decision-making

- Limited or no awareness of the debt management market and options available
- Lack of knowledge about how debt management services differentiate and how to compare products
- Financial stress / anxiety finds huge relief in DMC advice, resulting in few questions and little shopping around

Blurred boundaries between financial advice and sales, leading to pressure on consumers to act on perceived expertise

- Use of lead generators for sales, which was not always clear to the consumer
- Fees and charges not clearly visible in advertising

Misunderstanding that DMP provides opportunity to deflect particular creditors rather than deal with overall debt problems

Application

Manipulation of financial details to keep monthly repayments to a minimum

- Little / no opportunity for consumer to ask questions
- Lack of clarity around fees and charges and rare disclosure of total amount to be repaid

Rushed application process, leaving little time for thought and reflection

- Inaccurate and misleading financial advice
- Discouragement by fee-charging DMCs of use of non-fee-charging providers, or failure to mention non-fee-charging alternatives
- Encouragement of consumers to manipulate monthly expenditure, leading either to low and long term repayment or unaffordable payment schedules
- Encouragement of individuals with low levels of debt to set up fee-charging DMPs
- Encouragement of individuals to maximise debt prior to entering into a debt management plan
- Lack of clear information misled some consumers as to whether they were on an IVA or a DMP

Process & Payment

- Little attention paid to communication from provider
- Ongoing borrowing in breach of DMP or IVA conditions
- Little / no communication or avoidance of provider when struggling to make repayments

Poor information about agreements made between DMC and creditors, leading to low awareness over the long term of remaining balances / event of missed payments

Claims at point of sale that interest payments would be frozen at the point of setting up a DMP

Resolution & Aftermath

- Unhelpful, threatening or aggressive responses when consumers questioned the service or withdrew from the DMP
- Pressure on consumers to purchase other financial products with the DMC or a partner organisation after having entered into DMP / IVA

DEBT MANAGEMENT SERVICES – KEY FINDINGS

- The main attraction of setting up a DMP is that it is an informal, flexible way of managing debt repayments to creditors, offering the potential for negotiation around interest and charges. For many people, it was a way of simplifying the process of dealing with multiple creditors.
- Respondents had varying outlooks towards addressing debt, with some thinking about their long-term financial situation, and others thinking about immediate relief and 'breathing space'.
- Most respondents had very little understanding of the debt management market. The most well-known options were bankruptcy and debt consolidation loans. Many had not heard of a DMP prior to coming across the provider they used, and there was very little product comparison.
- There was a lack of distinction between financial advice and sales, meaning that consumers often believed they were receiving impartial advice when speaking to DMCs.
- Debtors were often unclear about the charges involved in a DMP, including set-up charges and the front-loading of fees. There was also lack of clarity around the distinction between DMPs and IVAs.
- Debtors were also often unclear as to whether interest / charges would be frozen – in some cases, this led to the escalation of the debt once the plan had been set up.
- DMCs emphasis on 'affordable monthly payments' meant that consumers were frequently unaware of the total cost of a DMP.
- There was a lot of confusion surrounding communication with creditors, with many consumers continuing to receive calls and emails from creditors complaining that they were not being paid.
- Repayment issues sometimes led to aggressive and threatening lender behaviour.
- Respondents with non-fee-charging companies or organisations tended to have a more positive experience overall.

7 Conclusions and Implications

This report has explored the key aspects of the consumer experience of, and potential issues around, three credit products / services: payday loans, logbook loans and debt management services. Despite the array of different experiences across and within each of the three product areas, a number of general themes have emerged in terms of decision-making and experience of products in the wider consumer credit landscape. The first part of the Conclusion reflects on the broader consumer landscape and attitudes and behaviours around credit. This is followed by a review of the key findings across each of the three product areas. Finally, the report considers potential implications and consumer suggestions arising from the research findings.

Lack of ‘choosing’

The research demonstrates that consumers in all three groups often did very little by way of product comparison. Many respondents had taken out their products in response to direct communication (e.g. pre-authorised credit cards or SMS text alerts) and with no consideration of other products. Where shopping around did occur, consumers in all three groups used weak signals to distinguish between firms – for example relying on design and brand cues to make a distinction between providers (e.g. how ‘slick’ a website felt or whether or not a company could afford to advertise). Another influence in such cases was vague personal recommendations, often linked with the likelihood of being granted credit – not the cost or risk involved.

Many of the consumers in the research lacked knowledge of the details relating to the products they had taken out and few had read the terms and conditions (or had them explained at the time of sale). When asked what questions they should ask before taking out a loan or debt management agreement, most were only interested in the affordability of the repayments.

APR, interest rates and charges are, by their nature, difficult for many consumers to calculate – adding further difficulty to the task of product comparison. This research found that in many cases, relevant information was provided – albeit in a range of different formats. However, even when provided clearly, difficulties were often still experienced around the comparison of interest rates or the understanding of the total cost of the product.

In terms of product selection, some consumers bypassed more mainstream forms of credit. Sometimes this was shaped by past experience – for example, having had the product before and getting ‘into trouble’ with it (e.g. having a credit card for ‘emergencies’ and over time running it up to its limit). Others excluded products on the basis that they knew they would be rejected – some having tried previously, but others simply perceiving it to be the case. Finally, as with payday loans, there also seemed to be some secondary consequences of negative popular media perceptions of products such as credit cards and overdrafts.

These problems were compounded by the excessive optimism of consumers regarding their ability to repay, which, in combination with their overall lack of awareness of the product / market, meant that consumers often failed to think about what could happen in the ‘worst case scenario’.

Behaving more responsibly

Consumer decisions about credit caused significant detriment to many of those involved in the research. Most recognised that they were not managing their finances in an ‘ideal’ way, but given the situations they were currently facing (or had faced in the past), they felt this kind of credit played an important role in their lives.

That said, respondents resented and were often appalled by what they saw as unfair firm behaviour. Problems around lender / provider communication and the provision of information formed a key part of the consumer experience across all three product areas. Additional common problem areas included perceived unfair charges, poor customer service, continuous bombardment with adverts and threatening behaviour.

When reflecting on their own situations some respondents felt that credit was too easy to get and wanted some measures put in place to ensure that proper affordability checks were in place. Some also highlighted

the risks of ‘pre-approved’ cards and ‘instant decisions’ in enabling them to make even less considered decisions than they may have made otherwise.

Payday Loans and Logbook Loans

As discussed in Section 5.4, payday loans and logbook loans can be usefully compared with one another, inasmuch as both are high interest loans most frequently accessed by consumers with poor credit histories who tended to be denied access to more mainstream forms of credit.

With both of these products, there were significant concerns regarding lender communication and explanation of the terms and conditions of the loan, the application process and assessment checks, lender communication throughout the process, and inappropriate advertising and sales techniques.

The research findings suggest that the biggest problem, specific to payday lending, was the escalation of debt that could occur through rolling over / extending, and the debt ‘cycles’ that users became caught in. New customers were often not aware that options to roll over / extend existed at the point of taking out the loan.

With logbook loans, however, a specific concern appeared to be lack of consumer awareness regarding the total cost of the loan, which was often masked by the lender through the emphasis on ‘low’ weekly payments. The other issue included miscommunication of terms and conditions around extra charges and fees, as well as the exact detail regarding the ownership of the vehicle, and lender behaviours when dealing with repayment problems and vehicle repossessions that could become a cause of consumer detriment.

Debt Management Services

Debt management services were considered separately in the report, as they were not typically conceived of as a type of ‘credit’, but rather as a debt solution or ‘service’, and evaluated somewhat differently as a result. Many respondents acknowledged that some of the challenges they faced had been partly caused by poor money management and financial prioritisation. Often these customers were relieved to receive the services of the DMC and this resulted in a ‘halo’ of positivity around the provider.

For a number of respondents, the experience of having set up or gone through a DMP or IVA was a significant aspect of their re-education in financial matters – perhaps articulating that debt is somehow immoral and or that they had learned their lessons. At the other end of the spectrum are deep-seated feelings of entitlement to credit, and annoyance at behaviours being ‘restricted’ by a debt management solution.

The research findings suggest that one of the underlying problems with debt management services was that DMCs did not clearly communicate terms and conditions to the consumer, especially around fees and charges and also in relation to what, precisely, the service would entail. This meant that consumers were frequently surprised when creditors continued to hassle them, or when their debt continued to escalate due to interest charges. Additionally, consumers viewed fee-charging DMCs’ sales techniques as advice and assistance – driven in part by their desperation and sense of urgency when entering into agreements. Consumers found it difficult to discern how qualified, trained or expert the representative was, and often suffered detriment as a direct or indirect result of what they were told.

A further concern was that debt management service users often did not feel empowered to take their business elsewhere. During the sales process, many consumers of ‘fee-charging’ DMCs had been warned of the ‘difficulty involved’ in engaging with non-fee-charging DMCs or managing debts alone. This was partly because negotiations with creditors were often hidden from consumers, which meant that they perceived it to be difficult to take back control of their payments and start afresh. A number of respondents switched providers, although in almost all cases this was instigated by receiving further advice from CAB or StepChange.

Implications and consumer suggestions

Despite consumers not being best placed to recommend regulatory changes, the majority felt strongly that ‘something’ needed to be done and a number of themes emerged in terms of desired action.

Overall, there was a general desire for well-structured forms of credit that have repayment of the debt as a clear priority. For some consumers, this kind of structure was absent from products like credit cards or overdrafts – and in some ways, higher risk, more expensive credit products (e.g. payday loans, doorstep lending) came closer to fulfilling this criterion than their more mainstream counterparts.

When it came to credit products, including payday loans and logbook loans, many consumers advocated interest rate caps or an outright banning of these types of companies [NB. The research took place at a time when these kinds of demands were being made frequently in the media]. With debt management

services, many accepted that fee-charging companies should exist (after all, you expect to pay for any other service such as legal or financial advice), however charges should be clearly highlighted and ‘advisers’ should be properly trained.

Tools that would aid ‘shopping around’ were spontaneously suggested – including ways to be able to tell if a firm was legitimate and get some impression of how well they treated their customers (e.g. industry accreditation or ratings systems). This could help consumers easily identify firms that behave fairly and shape their decision-making processes. In relation to this, some evidence exists that even simply holding a Consumer Credit Licence can provide a degree of reassurance to consumers (e.g. seeing the FCA logo perhaps offers reassurance).

The research demonstrated that eligibility checks represent a significant opportunity for improvement. At present, consumers often find these basic and easy to manipulate.

Consumers described facing challenges when information was not presented upfront, in a consistent format, and on a regular basis throughout the full duration of the process. One respondent compared the need for better communication of fees and charges in the financial sector with food labelling – in particular, noting how much nutritional information had improved over the years, with key data always provided in absolute and comparable terms, and ‘traffic light’ systems providing simple reminders of the risks posed by certain types of food.

The research identified a potential for improving the consumer experience through making changes to training for staff in certain roles, which could involve, for example, the clarification of the distinction between ‘advice’ and ‘sales’ – for example, a sales representative might answer certain types of questions with ‘I’m not qualified to give you financial advice’. In order to further facilitate the distinction between advice and sales for the consumer, it might be useful to identify mechanisms that could link a physical contract to the verbal ‘read-through’ provided at the point of consumer contact with a representative.

Finally, there may also be an opportunity to provide consumers with a clearly phrased ‘worst case scenario’ or ‘what can go wrong’ message on products / services at the point of advertising / purchase – as is now the case with mortgages – reducing the possibility of products not performing as consumers expect. This way, consumers could be made aware of – for example – every potential fee or charge that could be applied. Similarly, debt management service users could be better made aware that there is no guarantee of the freezing of interest, or that creditors will not receive payment for the first three months – and logbook loan borrowers could be clearly informed that their vehicle could be repossessed, and payday loan borrowers told that there is the option of rolling over or extending the loan at an additional cost.

8 Technical Report

I. METHODOLOGY, SAMPLE STRUCTURE AND RECRUITMENT CRITERIA

The research team conducted 60 × two–three hour long depth interviews with individuals who had experience of payday loans, logbook loans and debt management services. Fieldwork was conducted from late November to mid-December 2013. During this time 60 individuals were interviewed, with the product / service breakdown as follows:

- 15 × Payday Loans, of which:
 - 10 were recruited via a free-find method
 - 5 were recruited via advice-giving organisations
 - 20 × Logbook Loans, of which:
 - 15 were recruited via a free-find method
 - 5 were recruited via advice-giving organisations
 - 25 × Debt Management Services, of which:
 - 15 were recruited via a free-find method
 - 10 were recruited via advice-giving organisations
-
- and
- 16 were fee-charging debt management companies
 - 9 were non-fee-charging debt management providers

Many of the respondents had overlapping products / services, especially payday loans, which had frequently been taken out by those using debt management services and / or logbook loans. Many respondents had more than one experience of a single product / service with different providers. In both cases, respondents were interviewed about all of the different providers, products and services they had experienced.

To ensure that a broad range of experiences was captured, the research achieved a good geographic spread across the UK, with interviews for each product taking place in England, Scotland, Wales and Northern Ireland.

The sample also achieved a balance between male and female respondents, and covered a wide range of ages, from 21–73.

It was decided that, in order to capture diverse experiences, some respondents would be recruited via intermediary advice-giving organisations such as Citizens Advice Bureaux and MoneySavingExpert.com, and others using more conventional free-find recruitment. This enabled us to find a good mix of respondents with positive and negative experiences of the products / services.

Specific recruitment criteria for each product / service were as follows:

-
- Payday Loans × 15** All had taken out a payday loan in the last two years
- A mix of those who used loans regularly and infrequently
 - A mix of more and less experienced users
 - A range of typical value of the loan
 - 10 free-find recruitment; five recruited via advice-giving organisations
 - A mix of positive and negative experiences
-

Logbook Loans × 20 All had taken out a logbook loan in the last two years

A mix of those who had just one logbook loan, and those who had had more than one

A mix of those whose loans were outstanding and those who had repaid in full

A range of complexity of financial situation (e.g. high vs. low levels of overall debt)

A range of the total value of the loan

15 free-find recruitment; five recruited via advice-giving organisations

A mix of positive and negative experiences

Debt Management Services × 25 All had set-up / made payments to a debt management plan or an IVA within the last two years

16 to be with fee-charging debt management companies and nine with non-fee-charging providers

A range of level of severity of the debt, including total value and number of creditors

Minimum × two to have experienced 'credit repair' services

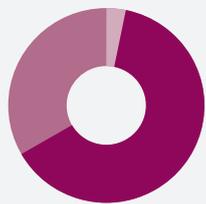
15 free-find recruitment; 10 recruited via advice-giving organisations

To include a number of individuals believed to have been inappropriately sold debt management solutions (in the eyes of a professional adviser)

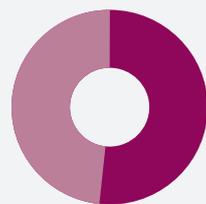
A mix of positive and negative experiences

A NOTE ON RECRUITMENT

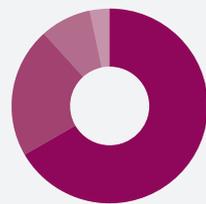
40 of the 60 respondents were recruited using a free-find method, and the remaining 20 via advice-giving organisations such as Citizens Advice Bureaus and MoneySavingExpert.com. Of these 20, five had payday loans, five had logbook loans and 10 had used debt management services. Recognising that these respondents were more likely to have had a negative experience of the product / service, we took care to ensure that respondents with neutral to positive experiences were represented across the sample as a whole.



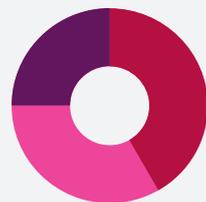
AGE
 2 × 18–25
 37 × 26–40
 21 × 41–65



GENDER
 31 Men
 29 Women



ETHNICITY
 40 White British
 13 Black British
 5 Asian British
 2 White 'Other'



TYPE OF PRODUCT
 25 Debt management services
 20 Logbook loans
 15 Payday loans



More information about the sample structure, recruitment channels and interview approach can be found in the appended Technical Report (Sections I and II).

II.I INTERVIEW APPROACH

The depth interviews were structured around a detailed discussion guide – the key sections of which are outlined below – but were designed to be open-ended and relatively informal in order to allow unexpected insights as well as potentially sensitive issues to arise spontaneously. Researchers did not expect all respondents to have a high level of financial literacy, and the questions were designed to be as clear as possible and in ‘plain English’. The interviews were carried out face-to-face, mostly in respondents’ homes, with a view to establishing a relaxed atmosphere and gaining respondents’ trust.

One of the key challenges for the research was ensuring it captured consumers’ interactions with products and services in full, and that it thoroughly explored all the stages of the consumer journey. Respondents themselves were sometimes preoccupied by one particular aspect of their experience, but it was crucial for us to understand the wider context to guarantee a robust interpretation of what really happened. Throughout the interviews, researchers sought to move beyond articulated testimony, and instead focussed on enriching, verifying and contextualising the information that respondents provided. This involved triangulating data and incorporating techniques which validated the self-report provided by the depth interviews.

For these reasons, the main tools used during the investigative depth interviews were journey maps which helped to create a structured version of events (especially where situations were complex and / or where multiple issues were interconnected and happening at a similar time). These timelines also allowed:

- Identification of key patterns in decision-making and behaviours at different stages in the individuals’ experiences
- Analysis of timescales and key events
- Order effects
- Understanding of behaviours, actions and characteristics of lenders
- Researcher to focus conversations on specific journey points and moments in the decision-making process that were the most interesting

In addition, researchers deployed the following tools / techniques:

- **Wheel of life:** This was a simple tool that enabled respondents to quickly share a summary of how they felt about different aspects of their life – enabling the researcher to understand issues that may have been related to their financial situation which may not have been spontaneously mentioned (e.g. family, health, relationship, work, housing etc.)
- **Review of purchasing decisions:** This included a walk-through of options when considering products / services and a review of factors influencing choice.
- **Semi-structured data collection:** Some structured data collection was included in each interview to ensure consistency and that all relevant data was collected. This was particularly vital in ensuring that all the ‘touchpoints’ relating to a consumer’s journey through a credit product / service were covered – even when a respondent was preoccupied by one particular step of the process.
- **Collection of artefacts:** Wherever possible, researchers collected documentary evidence (e.g. photos, leaflets, copies of sales material, emails, details of websites), or copies thereof, to validate self-reported data and enrich understandings of information provided by respondents.

II.II AREAS OF QUESTIONING

The depth interviews covered the following areas of questioning and exploration:

General

- Introduction: living situation; housing; family and relationships; health; employment status and occupation
- Financial situation and money management: current financial situation; factors shaping finances; spending patterns and main outgoings; attitudes towards money; motivations and pressures

- Borrowing money: recent experiences of borrowing; probing around different credit products; current debt and factors shaping it; attitudes towards credit / debt

Credit Journey

- Route in: steps leading up to borrowing; route to market; consideration of alternatives; existing knowledge of provider; role of advertising; opinion of product / service; key benefits and disadvantages of product / service
- Application process: channel preference and format; priorities at the time; information asked / provided; level of communication with provider; provider explanation of terms and conditions
- Loan / debt management agreement: options presented; information asked for / received; level of communication with provider; awareness of terms and conditions; questions asked and / or ability to ask questions; reactions / commentary at this stage
- Repayment process and problem-solving: repayment method; level of communication with provider; affordability; issues and problems; changes to the agreement
- Resolution / exit: method of completion; provider communication during and after completion
- Reflection on the process: overall experience; best and worst aspects of experience; potential for improvements
- The future: financial goals; potential changes in the future

Understanding of the marketplace

- Perceptions of other providers
- Perceptions of different types of credit
- Specific providers and brand awareness

III. PRODUCTS ASSESSED AND POLICY CONTEXT

This section presents an overview of the three products / services that were assessed in the research – payday loans, logbook loans and debt management services. It reviews the product specifics and how it works, the types of firms identified in the research, and some key differences within the sector. It also includes a brief summary of existing regulation and guidance within each product area.

III.I PAYDAY LOANS

Product and Firms

Payday loans are short-term loans that are typically repaid within a 30-day period, usually on the next 'payday'. The borrower normally gives the lender authorisation to withdraw the money from their bank account in the form of a Continuous Payment Authority (CPA) that, unlike a direct debit, cannot be cancelled by the account holder. An alternative payment method involves giving the creditor a post-dated cheque. Payday lending is well-established in the US, but has only recently become widely practiced in the United Kingdom.

The majority of the firms identified in the research operated online and via telephone. Some of the online lenders had a telephone component only for consumers taking out a loan for the first time; repeat customers could apply online. There was a smaller number of firms that had storefronts and operated out of branches, and some of these also had online or telephone services.

Typically, a payday loan is to be paid back within a month, but all of the firms identified in the research offered consumers the option of rolling over or re-contracting the loan. Rolling over – also referred to as extending or re-financing the loan – involves extending the time that the money is borrowed and paying off the interest and / or a fee. Some firms allowed consumers to pay off a loan by simultaneously 're-contracting', or taking out another loan that paid off the first loan plus the interest and / or charges. In both cases, consumers' total level of debt increased.

Identified firms fell into one of two broad categories. On the one hand, there were well-known lenders that have a strong brand presence, advertise widely, and come up highly on Internet searches and on review sites. On the other, there were less established firms who were much further down on Internet search listings, and were widely perceived by respondents to be less reputable than their more prominent counterparts. These firms were more likely to be registered abroad and have unclear contact information.

PAYDAY LOAN COMPANIES USED BY THE RESPONDENTS

RESPONDENTS TURNED TO MAINSTREAM LENDERS FIRST, AND '2ND TIER LENDERS' AFTER PROLONGED OR FREQUENT USE

Mainstream lenders



2nd tier lenders



Regulation and Guidance

In 2012, the Office of Fair Trading (OFT) published a review of payday lenders' compliance with the OFT's Irresponsible Lending Guidance⁹. This review drew attention to a number of issues in the sector, notably the quality of payday lenders' affordability assessments, the proportion of payday loans not repaid on time, and the frequency with which loans are rolled over or re-contracted. Based on these findings, as well as other research, for example by the University of Bristol¹⁰ and Consumer Focus¹¹, and relevant industry codes, the Financial Conduct Authority (FCA) is in the process of identifying and responding to gaps in the regulation.

III.II LOGBOOK LOANS

Product and Firms

Logbook lending – also known as Bill of Sale lending – involves securing a loan against a borrower's car. The Bill of Sale form states that the lender agrees to loan an amount of money in exchange for temporary possession of the vehicle and its owner's V5C Vehicle Registration Certificate, informally referred to as a 'logbook'. The borrower may still continue to use the vehicle, but in the event that the borrower defaults on loan repayments, the lender may seize or sell the vehicle. Logbook loans can typically be secured without a credit check.

A logbook loan must be registered with the High Court in order for lenders to legitimately repossess the vehicle in question, for which a court order will then not be required.

The Bill of Sale form is recognised by law in England, Wales and Northern Ireland, but not in Scotland, where lenders operate using a different agreement, called a Hire Purchase Agreement, which is regulated by the Consumer Credit Act 1974. This involves temporarily selling the car to the lender, who then hires it back to the borrower until the loan has been repaid in full.

The research came across a small number of logbook lenders, and they operated in fairly similar ways. The main difference between them was that some appeared to be attached to shops that offered a range of credit products, from payday loans to pawnbrokers, whilst others appeared to operate as a distinct entity.

9 Office of Fair Trading, 2012. Payday Lending Compliance Review – Interim Report. http://www.offt.gov.uk/shared_offt/business_leaflets/consumer_credit/OFT1466.pdf

10 University of Bristol Personal Finance Research Centre, 2013. The Impact on Business and Consumers of a Cap on the Total Cost of Credit.

11 Burton, Marie, 2010. Keeping the Plates Spinning: Perceptions of Payday Loans in Great Britain. Consumer Focus.

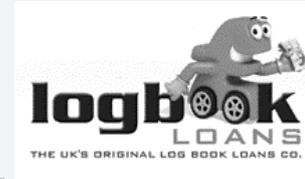
Some of the firms operated out of an office or a branch of a general credit store, whilst others communicated with borrowers via the phone. In all cases, a firm representative was sent out to inspect the vehicle prior to the agreement of the loan.

LOGBOOK LOAN COMPANIES USED BY THE RESPONDENTS

RESPONDENTS HAD LITTLE AWARENESS OF DIFFERENT LOGBOOK LOAN PROVIDERS AND DID LITTLE SHOPPING AROUND

Logbook Loans Northern Ireland

AUTOMONEY



Regulation and Guidance

Following a consultation initiated in 2009, the government decided not to outlaw Bill of Sale lending agreements in January 2011. Instead, it advocated the introduction of new and amended non-statutory requirements. This included a new code of practice, issued by the Consumer Credit Trade Association, to promote greater consumer protection, and a consumer information sheet explaining Bill of Sale loans in clearer terms, and what consumers should expect from lenders. It also emphasised the significance of amended Consumer Credit Act requirements, such as a 14-day cooling-off period for new loans, allowing consumers the option to make partial early repayments instead of only being able to pay off the entire amount early, and always assessing the creditworthiness of borrowers before issuing a loan. Finally, it advocated continued OFT monitoring under the Irresponsible Lending Guidance.

III.III DEBT MANAGEMENT SERVICES

Product and Firms

Debt management plans (DMPs) and Individual Voluntary Arrangements (IVAs) both involve entering into repayment negotiations with creditors as a means of getting debt under control. This usually involves seeking to freeze or reduce interest rates and charges applied to the debt, and agreeing on a reasonable repayment to the creditor. DMPs can be set up by an individual without the help of a third party, but many prefer to use an intermediary third party company or organisation, which will often charge for its services. An IVA must be set up by a third party Insolvency Practitioner, and always involves a charge.

The key difference between a DMP and an IVA is that the former is a non-legally binding agreement to pay off all of an individual's debt, whilst the latter is a legally binding agreement with stringent conditions attached which is typically finished after five years, with any remaining debt wiped by the creditors.

Intermediary-run DMPs and IVAs are attractive to those with multiple creditors as they provide the option to pay a single amount to a single entity, who will then deal with creditors on the borrower's behalf. Given the relative informality and flexibility of debt management plans compared to IVAs, it is Debt Management Companies (DMCs) which demonstrate the greatest variance in terms of terms and conditions, fees, and, to a lesser extent, services offered. Although some firms also have an internal Insolvency Practitioner, it is DMPs that prove to be the most profitable for DMCs.

Most of the fee-charging DMCs encountered in the research operated in the way outlined above. There was one exception, which was a company that entered into negotiations with creditors on behalf of the borrower for a fixed time period, after which the borrower planned to take over negotiations herself.

The non-fee-charging DMCs also functioned in a similar way, with the key difference being that they were free at the point of use, relying instead on other funding sources – often directly from creditors.

Debt management companies used by respondents

DEBT MANAGEMENT SERVICES SPLIT INTO FEE-CHARGING, AND NON FEE-CHARGING

Non fee charging



Fee charging



Regulation and Guidance

In March 2012, following a 2010 compliance review and a 2011 consultation exercise, the OFT issued new guidance for DMCs and credit repair companies, outlining standards which – if not met – could lead to the revocation of a provider’s consumer credit licence. Shortcomings identified by the compliance review included staff incompetence and lack of action by relevant trade bodies (e.g. Debt Managers Standards Association (DEMSEA) and the Debt Resolution Forum (DRF)). This guidance also placed an onus on DMCs to be more watchful of those in vulnerable circumstances, referring individuals to independent support and advice-giving organisations where appropriate.

In preparing for the transfer of consumer credit responsibility from the OFT to the FCA, the FCA has proposed new capital requirements for DMCs, intended to protect consumers when DMCs encounter financial difficulties and ensure consumers’ repayments are not misappropriated by debt management firms.

IV. GLOSSARY

This report contains a number of industry, product-specific and research terms that are briefly defined as follows:

Administration Order

A court order issued at the request of creditors to appoint an administrator to settle a debtor’s estate and address creditors’ claims.

Annual Percentage Rate (APR)

The annual rate that is charged for borrowing (or made by investing), expressed as a single percentage number that represents the actual yearly cost of funds over the term of a loan.

Bankruptcy

The legal procedure a person (or other entity) goes through who cannot repay debts owed to creditors. In the UK, bankruptcy is imposed by a court order, often initiated by the debtor.

Bill of Sale

A document that records a transaction between two parties. For the seller of a vehicle, a Bill of Sale shows the date the vehicle was sold and information about the buyer. For the buyer, it gives specific information about the vehicle that can be checked in a Vehicle History Report. In the case of vehicles, a bill of sale is not proof of ownership (i.e. Title Transfer).

Consumer Credit Licence (CCL)

Authorisation by the Office of Fair Trading to businesses offering credit or lending money to consumers, or allowing customers time to pay for goods and services.

Continuous Payment Authority (CPA)

Regular, automatic payment using credit or debit cards. CPA authorises lenders to take funds on the day of their choosing, and in the amount of their choosing.

Credit History

Statutory report containing personal details, financial links to other entities, electoral roll status, credit accounts, missed payments or defaults, and a list of other recent searches on file (up to one year). Credit histories can be accessed for a small fee by reference agencies.

Credit Rating and Credit Score

A calculation by lenders based on available data about past credit history to determine 'creditworthiness' / ability to repay a loan. The higher the score, the more likely the borrower is able to repay, although different lenders take different information into account.

Credit Repair

Where an individual or third party attempts to mend a credit rating. For example, when an individual seeks to have a County Court Judgement (CCJ) removed, by locating and disputing errors on a credit report, or simply assisting when a person seeks advice on how best to avoid poor credit ratings in the future.

Debt Arrangement Scheme (DAS)

A statutory scheme run by the Scottish Government to help debtors pay their debts by giving them more time to pay without additional stress or threat of court action from their creditors. DAS freezes interest, fees and charges on their debts from the date the DAS payment programme application is made.

Debt Consolidation Loan

A new loan taken out by an individual to bring together multiple repayments on a range of credit cards, loans and overdrafts at different times of the month into one repayment on a fixed rate. The debt consolidation loan may be suitable for some borrowers but may also cost more than the original debts.

Debt Management Company (DMC)

A private company that offers advice, debt management plans (DMPs), and sometimes Individual Voluntary Agreements (IVAs) as part of their service.

Debt Management Plan (DMP)

An agreement between an individual and his or her creditors to pay *all* debts. Regular payments are often made to a licensed debt management company. The company then shares this money out between creditors. DMPs can be fee-charging and non-fee-charging.

Debt Relief Order (DRO)

Legally binding debt payment arrangement administered by authorised debt advisers for people with less than £15,000 in debt, little spare money, and who do not own their own homes. DROs are provided by an officer of the bankruptcy court (an 'Official Receiver'). Creditors are required to honour the DRO arrangement. People with DROs are usually freed of debt after 12 months.

Detriment

Financial and psychological harm caused by unsuitable / unaffordable products, inappropriate advice, and / or services and products whose high cost or poor quality signifies a failure of the market.

Door-to-door Lending / Doorstep Lending

The loan of money, usually small amounts, conducted face-to-face in a consumer's home or on their doorstep. Payments are usually made weekly.

Fast-Track Voluntary Arrangements (FTVAs)

A mechanism for dealing with debts when already made bankrupt by the court. Assets are sold to pay debts and bankruptcy is annulled (cancelled).

Front-loading

The practice among some fee-charging debt management services of prioritising payment for their services prior to distributing payment to customers' creditors.

Hire Purchase Agreement

Variation of logbook loan in Scotland. The lender buys the vehicle and hires it back to the seller for an agreed period, after which ownership returns to the debtor.

Individual Voluntary Arrangement (IVA)

A legally binding agreement with creditors to pay all or part of debts. The individual agrees to make regular payments to an Insolvency Practitioner, who divides money between creditors. Debt in these cases is usually sizeable and, after a set period of time, is cleared.

Irresponsible Lending Guidance

Office of Fair Trading (OFT) standards that set out unacceptable behaviour of licensed lenders. The guidance clarifies practices which may lead to the withdrawal of licenses.

Lead Generators

When credit product / service providers, e.g. debt management companies, offer high commission payments to other companies for receiving referrals.

Loan Shark

Derogatory reference to unregulated and predatory practice of offering loans to people at extremely high interest rates.

Logbook / V5C Registration Certificate

A record of vehicle ownership and registration. It is issued to anyone who has registered their car. The logbook lists details about the vehicle, which must match the car itself.

Money Advice Service (MAS)

An independent service that offers free debt advice to the public.

Office of Fair Trading (OFT)

The UK's consumer and competition authority. From 31 March 2014, the OFT will close and its responsibilities will be passed to different bodies. Regulation of the consumer credit market will be taken over by the Financial Conduct Authority.

Overdraft

Extension of credit from a financial institution when an account has reached its limit, allowing the individual to withdraw money when there are no remaining funds. Interest is paid on any outstanding balance. Overdrafts can be 'authorised' / pre-set between the bank and the customer, or 'unauthorised' / not pre-arranged and therefore subject to expensive fees and charges.

Rollover (also 'extend' or 're-contract')

When a loan is carried over typically for another month, often incurring additional fees and further interest charges.

Segment 1 Retired with resources (14%)

Retired people, living comfortably on income from pensions and savings, very rarely going overdrawn or needing to take on debt. The majority have the resources to deal with an income or expense shock. Some use expert financial advice but they are also well informed. An optimistic and confident group.

Segment 2 Retired on a budget (7%)

Retired elderly people, living on low incomes, often alone. Organised and careful with money, they avoid debt and tend to be very loyal to a small number of financial service providers. Many with access challenges due to poor health or disabilities, they are likely to rely on cash and cheques to make payments.

Segment 3 Affluent and ambitious (11%)

An affluent working age segment more likely to be men, many are married with children living at home. Financially secure, confident and optimistic, they are likely to own a large number of financial products, including savings and mainstream credit. They enjoy shopping around for the best deals, often online.

Segment 4 Mature and savvy (7%)

An affluent, middle aged segment, more likely to be male. Working and usually home owners, most have some form of savings and investments. They are very confident money managers and generally find it easy to keep up with their financial commitments. A secure and optimistic group.

Segment 5 Living for now (14%)

A relatively low income group, more often younger and male. The majority work and keep on top of bills but they tend to be less organised with money than others and can be prone to risk taking. Although Internet savvy, they lack confidence in financial decision making, often relying on friends or family for advice.

Segment 6 Striving and supporting (8%)

A low income segment, mostly female and the majority with dependent children. Most work but although risk averse, money management is a struggle. They may fall behind on payments, find it difficult to meet an unexpected expense, and rarely switch providers. A busy and pressured group.

Segment 7 Starting out (9%)

A young segment of men and women, with more than half from minority ethnic groups. Despite many having higher level qualifications with some still studying, incomes are relatively low. They may struggle to make ends meet, often relying on credit to get by, but they have a strong support network and are confident and optimistic about the future.

Segment 8 Hard pressed (10%)

A low income segment of men and women, most are single but many live with dependent children. The majority are out of work and keeping up with bills is a struggle. With low financial confidence and limited access to mainstream credit, this segment finds it hard to make ends meet.

Segment 9 Stretched but resourceful (14%)

A family segment of men and women with children, almost all in work. Incomes are relatively high and more than half own their home with a mortgage. Although generally able to keep up with bills, credit use is high. Confident but time poor, many would struggle to cope with an income or expense shock.

Segment 10 Busy achievers (7%)

Mainly female and married, most have children living at home. The majority work and household incomes tend to be high. Most have savings as well as loans and credit cards and although often overdrawn, they are able to keep up with household bills. Very time poor, but optimistic and confident about the future.

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