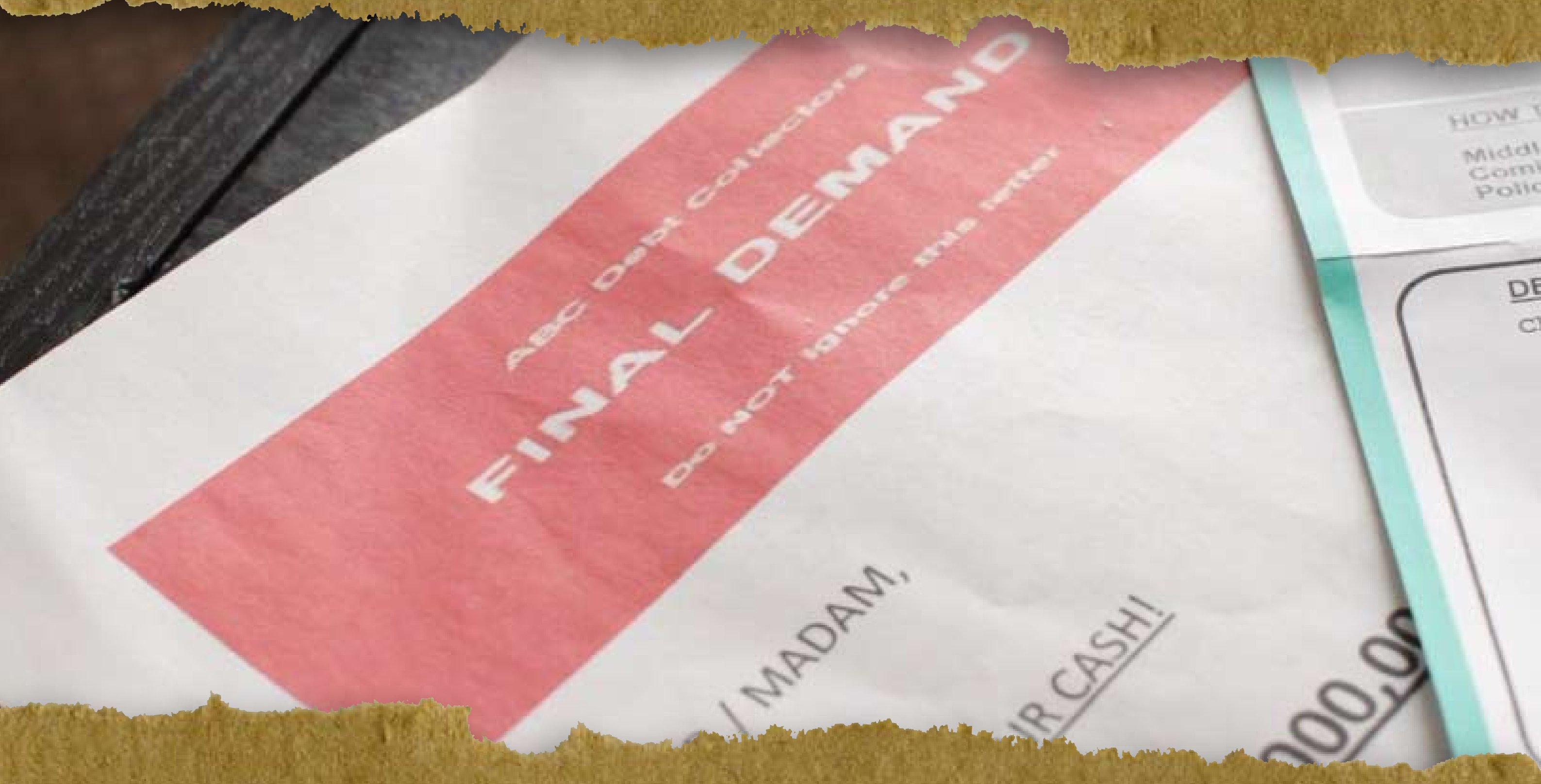
stopping the payday loan rip-off

how we can tackle the scourge of irresponsible lending



Church Action on Poverty

CfRC centre for responsible credit

Niall Cooper and
Sarah Purcell
October 2013

Acknowledgements

Church Action on Poverty is a national ecumenical Christian social justice charity, committed to tackling poverty in the UK. We work in partnership with churches and with people in poverty themselves to find solutions to poverty, locally, nationally and globally. Further information can be found at www.church-poverty.org.uk. Registered charity number 1079986. Company limited by guarantee, registered in England and Wales, number 3780243.

The **Centre for Responsible Credit** (CfRC) is a dedicated unit established within the Centre for Economic and Social Inclusion to: monitor the development of credit markets; research models of responsible provision; and promote policy responses which protect the long-term interests of households. Company limited by guarantee, registered in England and Wales, number 07043936.

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The report, and other resources on debt and credit, are available at www.church-poverty.org.uk/foodfuelfinance.

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Executive summary

A coalition of consumer, debt and anti-poverty charities, backed by a cross-party group of MPs, is calling for urgent action by Government to tackle, once and for all, the scourge of irresponsible lending by payday and other high-cost lenders, and to support a major expansion of credit unions as a cheaper and more responsible alternative.

Millions of people, many on already very low and precarious incomes, have been the subject of irresponsible lending practices. At a time when many people are really feeling the pinch, irresponsible lending risks pushing them over the edge, and causing serious and long-term damage to their finances, families and health.

Irresponsible lending practices also risk further undermining the roll-out of Universal Credit – a central plank of the Government's welfare reform programme – if payday and other irresponsible lenders exploit the move from fortnightly to monthly payment of Universal Credit.

A succession of Government reports and investigations have highlighted widespread market failure and irresponsible lending in the payday and wider high-cost lending sectors over many years. Repeated calls over many years for greater self-regulation by the high-cost lending industry have fallen on deaf ears.

The high-cost lending industry has proved to be incapable of effective self-regulation – it is now time for Government and regulators to step in and offer consumers the real protection against irresponsible lending practices that they deserve.

In parallel with this, there is a pressing need to support a major expansion of affordable alternative sources of credit for people on low and middle incomes, including in particular the UK's burgeoning Credit Union movement.

Whether you are an individual, a local authority, an employer, faith or community group, a trade union or educational institution, we invite you to join us in signing the Charter, to add your voice to the call for more responsible lending, and to take action to encourage others to do likewise.

Charter to stop the payday loan rip-off

We call for effective regulation of payday lenders, which is properly enforced, to:

- Stop them giving loans to people who can't realistically afford to pay them back.
- Stop them repeatedly rolling over loans and creating spiralling debt.
- Stop hidden or excessive charges.
- Stop them raiding borrowers' bank accounts without their knowledge and leaving them in hardship.
- Stop irresponsible advertising and instead provide clear and transparent information.
- Require lenders to promote free and independent debt advice, and ensure they co-operate with other services to help people get out of debt.

We also want action to support the growth of credit unions and other forms of more responsible lending; we want banks to increase the availability of credit to people on low and middle incomes: and we want new research on capping the total cost of credit undertaken now.

The problem

Irresponsible payday lending is damaging the health and wealth of our country.

Numerous recent reports have drawn attention to the irresponsible lending practices of payday loan companies and other types of high-cost lending such as hire purchase agreements, doorstep lenders and unarranged overdrafts. Attempts at 'self-regulation' have failed, and the problem is getting worse. Thousands of people already struggling to make ends meet are paying the price.

There has been an explosion in the market for payday loans in the last five years, since the credit crunch started to take its toll in the UK. However, the problem of extortionate money-lending has been around for a long time.[1] Loan sharks have been operating in the UK for decades, preying on the most poor and vulnerable people and perpetuating the cycle of poverty.

As far back as 2004, the Office for Fair Trading referred the home credit industry to the Competition Commission. At the time, the home credit market was lending around £1.5 billion to customers in the UK and recouping £1.9 billion in repayments. The Competition Commission found that in the absence of adequate regulation and lack of competition, the high-cost lending industry was able to make excess profits at the expense of those on low incomes.

A report by Radio 4's *Moneybox* highlighted the problem in 2004:

> **"The closer I went to the people with the problems, the more I heard that simple call. Without choice there is no competition and without competition there's no pressure on lenders to bring interest rates down. It will take radical change to make sure that low-income families who have to borrow for essential items do not continue to pay a very high price for being poor."**
>
> Paul Lewis, *Moneybox*, 2004

Over the past few years, payday lending has taken over as the largest, most aggressive and most expensive form of credit in today's finance market. As the Bureau of Investigative journalism has revealed[2], the 10 biggest payday lending companies now have a total turnover of nearly £800 million. Just three years ago these companies had a combined turnover of just £313 million. And at the start of the recession only one company had turnover of more than £50 million, now there are four companies with turnovers substantially over £100 million. According to figures from the Consumer Finance Association[3], the trade body for payday lenders, the total payday lending market is £2–2.2 billion, with 240 lenders operating from 1,238 locations and employing more than 4,842 employees.

Payday lenders are not only growing rapidly, but are also hugely profitable. In September 2013, Wonga, the market leader, reported pre-tax profits of £84.5 million for 2012, an increase of 35% on the previous year. In its annual statement[4], Wonga reported £1.2 billion in lending, an increase of 68% on the previous year.

The repayments on a month-long payday loan can start off at an affordable rate, but quickly become unmanageable when payments cannot be made on time and loans are 'rolled-over' from one month to the next. People who borrow a few hundred pounds can end up paying back thousands. Half of the people who take out payday loans find that they cannot afford the repayments leading them to take out further loans and spiral into unmanageable debt.

> **"Competition appears not to be working properly in the payday lending market, allowing firms to profit from making loans that cannot be paid back on time."**
>
> Claire Maxwell, Chief Executive of the OFT

Recent research from Citizens Advice[5] has uncovered a number of negative practices carried out by payday lenders:

- **irresponsible lending** (lending to under-18s and people with mental health issues);
- **inadequate checks** on borrowers (failing to carry out proper identity checks);
- **taking more money than owed** (lenders taking more money than is owed by the customer and refusing to refund it);

Competition appears not to be working properly in the payday lending market

Office of Fair Trading

- **misuse of Continuous Payment Authorities** (CPAs): raiding bank accounts without any warning, leaving no money in the account;
- **harassment** (pestering people in debt and contacting others at the same address to shame the borrower);
- **refusal to agree to repayment plans** (refusing to help people who are struggling with repayments by refusing to agree a payment plan).

It was also found that seven out of 10 people are put under pressure to extend their existing loans, causing them to sink deeper into debt; 84% of borrowers said lenders did not offer to freeze interest rates or charges when they missed a payment or defaulted on the loan, despite promising to do so when the loan was taken out.

It is unacceptable that in a modern society, growing numbers of low-income households have little choice but to resort to unscrupulous lenders and to be subject to the abuse of power and increased deprivation to which this can lead. Better regulation of the credit industry is urgently needed to bring down the cost of socially harmful credit and to ensure that lenders behave more responsibly.

It will take radical change to ensure that families do not pay a high price for being poor

Moneybox

Payday loans leave many people drowning in debt

The human cost

Irresponsible lending is forcing people into serious debt.

In the last four years, Citizens Advice has reported a ten-fold increase in the use of payday loans, demonstrating that people are relying on them to meet rising living costs. Millions of people, already living on low incomes, have been subject to irresponsible and predatory lending practices, such as misleading advertising, extortionate interest rates, failure to carry out affordability assessments, and excessive pressure to take out new loans or refinance existing credit.

Many families have been forced into extreme levels of debt by loan companies who prey on the poor. Strapped for cash, one million families are being forced to use high-cost credit as a means of feeding their families and paying for essentials.[6]

A recent survey commissioned by Which? revealed that 400,000 people are using payday loans to pay food and fuel bills, and 240,000 people are using the loans to pay off existing debts.

In another example of the Poverty Premium, banks and mainstream credit providers will not lend to people with poor credit histories, so the poorest families take out high-cost credit agreements and pay vastly more than people who have access to mainstream credit. Even a small amount of debt can be difficult to pay back for people on low incomes, and when the debt spirals out of control it can become a significant source of stress and anxiety leading to mental ill-health. At a time when many people are feeling the pinch, irresponsible lenders risk pushing them over the edge, and causing serious and long-term damage to their finances, families and health.

> **"You would tend to find that agents really only cared if they got paid, because they were self-employed. We didn't care whether customers could afford to pay their gas, electric or anything else – or feed themselves. As long as we got paid, I wasn't bothered."**
>
> Former Area Manager for a large doorstep lending company

PAYDAY LOANS NIGHTMARE

Repaying debts left mum living on 25p noodles

THE Glaswegian woman has revealed how she was at her wits' end as she was hassled into paying back more than three times what she borrowed.

A MUM of two had to survive on 25p noodles after she borrowed £1,200 from payday loan firms to pay for her dad's funeral.

Glasgow woman Jacqui, who asked not to be identified, was left at her wits' end as four companies hassled her for months on end. And she ended up paying back more than three times what she borrowed.

Jacqui took out four internet loans of £300 on the same day after her father passed away in 2011. Speaking through tears, she told the *Record* yesterday: "It's all I could do because I didn't have the money and I had to bury my dad.

"I just thought I would get the money and then I would be able to pay it off. But they all demanded their money at once and I was renewing one loan to pay another one or ending up getting bank charges. It was just constant. Every month, I was left without a penny. I was walking to work and walking back to work. My rent built up, other debts built up ... everything built up round about me."

Jacqui said she didn't realise the firms would all automatically remove money from her bank account at the same time. This put her into overdraft with no cash for essentials such as food and rent.

She said: "I would be paid at midnight and the money would be gone in an hour or two. It meant I didn't have a penny. I ended up with rent arrears and was threatened with eviction. I couldn't eat and had to beg and borrow to get my two kids anything. We were surviving on 25p noodles."

Soon Jacqui was being chased by debt collectors.

She said: "They were phoning me constantly. I was getting 12 phone calls a day, eight texts a day. Constant phone calls and texts and emails. The irony is I never spoke to anyone when I took out the loan. Everything was done online – no texts or phone calls or anything. But when I couldn't pay it back, they were on the phone constantly."

Jacqui has now got on top of her debts after receiving help from the Govan Law Centre in Glasgow. She still has to settle outstanding payments to one firm but can see light at the end of the tunnel. Her advice to anyone considering taking out a payday loan is clear: "Don't do it. Definitely don't do it. You think it will help and you will be able to pay it off but it just builds up and builds up."

(*Daily Record*, 6 August 2013[7])

Payday lending profitability

Profits in the industry are driven by irresponsible practices.

The huge profitability of payday lending is based on a number of factors:

- **Excessively high charges** – frequently in excess of £30 per £100 loan per month (equating to annualised interest rates of up 5,800 per cent APR).
- **Short-term loans** – meaning that companies are able to lend out the same £100 multiple times per annum. If the same £100 is lent out 10 times in a year, it can effectively accrue the £30 total cost of credit 10 times over. For each pound lent, it is therefore possible to generate £3 per annum – way in excess of the profit earned from any other form of credit.
- **Rollover loans** – when one month's loan is 'rolled over' into the next month, the company is able to add charges not only on the original loan, but on the original charges. Compound charges, especially if rolled over multiple times, can add still further to the profitability of the loan.

In confirmation of this, the Office of Fair Trading's own compliance review on payday lending[8] found that:

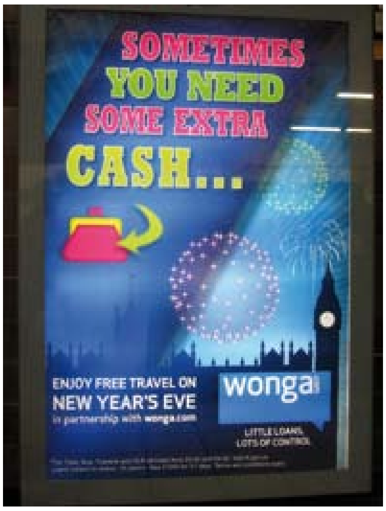
- Around a third of loans are repaid late or not repaid at all.
- 28 per cent of loans are rolled over or refinanced at least once, providing 50 per cent of lenders' revenues.
- 19 per cent of revenue comes from the five per cent of loans which are rolled over or refinanced four or more times.

The power of payday advertising

The huge growth in payday lending is clearly in part attributable to the rapid growth in companies' advertising budgets.

A recent article for the AOL money website[9] argues:

> All the announcements in the world from the likes of the Office of Fair Trading and the Archbishop of Canterbury seem to have made very little difference to the big players of the payday loans world. Figures have revealed that they are ploughing even more money into advertising than before. The figures came from Nielsen, and were put together for the *Mail on Sunday*[10]. They found that in the past 12 months, the amount that the biggest five payday lenders were spending on advertising had risen by 26% – to an incredible £36.3 million. There are a number of reasons why this should raise concerns.
>
> First, it shows just what firepower the industry has. Anyone who held out some hope after the Archbishop of Canterbury announced plans to use the weight of the church to boost credit unions so that they provided a real alternative, will see that the church is up against a considerable commercial opponent.
>
> Second, the more advertising is thrown behind payday loans, the more people will see it as the mainstream solution, and will not look to other more cost-effective ways to borrow or make ends meet.
>
> Third, advertising is often focused on people who have significant financial problems. The enormous number of daytime adverts predominantly reach the old, the young and the unemployed.



Payday lenders spend huge sums on advertising and sponsorship deals

Exploiting Universal Credit

Payday lending could undermine the Government's flagship welfare reform programme.

If left unchecked, irresponsible payday lending practices risk undermining the roll-out of Universal Credit – a central plank of the Government's welfare reform programme.

The new Universal Credit system – due to be rolled out to over six million benefit claimants by 2017 – will see benefits paid monthly rather than fortnightly. For some, this will provide a positive step in empowering them to more easily make the transition into paid work. But for those who already struggle to make their benefit cheque last to the end of the fortnight, the pressures to turn to payday lenders to get them through to the end of the month will be enormous.

A survey by the Department for Work and Pensions found that 42% of claimants said it would be harder for them to budget if they were to receive their payments monthly, with single parents, young people and single claimants most likely to say it would be harder.[11]

For irresponsible payday lenders, the temptation to exploit this new 'market' will be huge, and for those tempted to take out a payday loan to tide them through to their next Universal Credit payment, the results could be disastrous. Lenders could then use Continuous Payment Agreements (CPAs) to drain bank accounts as soon as benefit payments arrive in the account, leaving nothing in the account for the rest of the month – and the only 'solution' for the unfortunate claimant would be a further rollover loan.

Given these concerns, it was not surprising that the Minister for Welfare Reform, Lord Freud, recently announced that he has asked civil servants to come up with ways of restricting lenders' access to accounts of benefit claimants until utility bills and rent have been accounted for.[12]

Case study: benefits and payday loans

'Margaret' (not her real name) discovered that her teenage son, who had been living on Jobseeker's Allowance (JSA) for a few years, had accrued debts of £3,500–4,000.

The debts built up over a number of years. The problem began when Jamie's bank offered him an overdraft and, once it was accepted, continued to offer further extensions to his overdraft limit. Being a teenager, living on a limited amount of money, he took the extensions and did not realise the full impact of the interest rates and subsequent debt that was building up.

When Margaret found out about the debts, she telephoned the bank to complain and ask them to stop increasing the overdraft facility. However, they refused to speak to her as she was not the account-holder. Margaret wrote to the bank to complain and ask for a refund of the interest (based upon being entitled to refund of overdraft fees), but they refused. Had the interest been refunded, it would have been enough to pay off the outstanding amount owed at that point.

Jamie had also accrued debts through his mobile phone contracts and payday loan companies. Payments for these had become quickly unaffordable. Margaret stepped in and paid off some of the payday loans herself as she was horrified at the interest rates, seeing one loan of £200 quickly turn into a debt of £900. Jamie had hidden the letters demanding money back, as he was scared and embarrassed about it. Margaret has had to borrow money from her mother to pay off some of the debts; her mother was very worried about her after she had a breakdown and suffered with stress and anxiety.

Jamie's debts have been sold and passed on from one debt collection agency to another, but Jamie and Margaret are never informed when the debt is passed on to a new company. They receive endless phone calls from unknown numbers at anti-social times. Margaret now avoids answering withheld numbers.

Margaret also lives with the added stress of trying to keep the debts a secret from her husband; she fears he will be angry and have no sympathy for his son. She does not want her husband to know that she has paid off some of her son's debts; she has to destroy letters and ignore phone calls from debt collection agencies.

Margaret feels that she has to protect her son from the worst levels of stress that come with being constantly harassed by debt collectors. Jamie attempted suicide because of the situation he was in. Margaret says he buried his head in the sand for a long time, but since the suicide attempt the effect on his mental health is extremely detrimental. He cannot deal with it any more, and Margaret fears he may try to take his life again if she forces him to take control.

Margaret continues to pay off the debts, a little bit at a time, as this is all she can afford to do.

Failures of regulation

Regulation is urgently needed but has so far been ineffective.

A sector unable to regulate itself

For years, lenders and others have argued against tighter regulation of high-cost lending on the basis that the industry will regulate itself. Yet time and again, self-regulation within the payday lending industry has failed to deliver for consumers.

In November 2012, the Consumer Finance Association, the trade association for payday lenders, responded to heavy criticism by announcing its own customer charter. Yet just six months later, at least 12 out of 14 of its promises had been broken.

In spite of claims that lenders would take into account their customers' ability to pay, Citizens Advice found that 87% of lenders did not ask for documents to show they could afford the loan, and 58% failed to explain the loan should not be used for long-term borrowing.[13]

Of those who had problems with repayments, 70% said they had been put under pressure to extend the loan (rather than being offered a more affordable repayment plan), and 84% said they had not been offered a freeze on interest rates and charges when they informed the company they were struggling to pay. In 95% of cases, the lender had not checked to see if the individual could afford to repay the loan if it were extended.

Widespread disregard for the law

As the sector has grown in recent years, unscrupulous lending practices have become entrenched in the industry. A review on high-cost credit, conducted by the Office for Fair Trading (OFT) in 2010, found widespread non-compliance with the Consumer Credit Act and other related legislation. The evidence indicates a disregard for the law across the sector and throughout the lifecycle of the loan, from advertising through to debt collecting.

The main findings of the OFT's review were:

- A number of firms use aggressive debt collecting tactics which fall well below the standards set out in the OFT's Debt Collection Guidance.
- Lenders in the payday loans market compete with each other by emphasising speed and easy access to loans, rather than the cost to the borrower.
- Lenders encourage customers to roll over their loans (increasing debts for the borrower), rather than creating a more affordable repayment plan for them.
- Continuous Payment Authorities (CPAs) are misused and are poorly explained to consumers when they are set up. Misuse of CPAs is causing distress and anxiety among consumers, and in some cases leaving them with insufficient funds to cover basic needs.
- The majority of lenders are not conducting affordability assessments, and their revenue streams rely on rolling over and refinancing loans.
- Poor internal procedures and processes are evident across the industry, in particular an inadequate complaints handling system.

The OFT made a number of recommendations to government on how to improve the operation of the industry and how to help consumers make informed decisions. However, the report stated that **"more radical changes would be required if the government wants to tackle the wider social, economic and financial context in which the high-cost credit market exists"**.

87% of payday lenders did not ask for documents to show that borrowers could afford repayments

Figures from Citizens' Advice

Case study: effective regulation

In Canada, payday lenders are required to abide by a strict Code of Conduct which forbids 'rollover' loans and selling multiple loans. The Code also specifies that there should be information available in shops about free debt advice and money management support.

The Canadian Payday Loan Association (the trade body representing high-cost lenders) adopted a Code of Best Business Practice. This code has clear and enforceable conditions. including a complete ban on rolling over loans from month to month and a promise to only offer one loan per customer. The Canadian government has also enforced a cap on the total cost of credit, and implemented it so that payday lenders have to operate within ethical boundaries. A national limit was set with the option for regional government to set lower limits; some regions also set up 'CAP Commissions' made up of industry, regulatory and civil society representatives to establish a fair level at which to cap credit (e.g. in Ontario the cap has been set at $21 for every $100 lent).

Some companies which work in the UK, like The Money Shop, also operate in Canada, where they happily abide by these rules, demonstrating that it is possible to have a well regulated market and a cap on interest rates, and payday loan companies will continue to operate within the boundaries of the law.

Government failure to regulate

More recently the OFT itself has been criticised for being ineffectual in terms of policing payday lenders.[14] A report by the Public Accounts Committee (PAC, May 2013) found that the OFT had "failed to identify risks of malpractice, costing consumers £450 million a year".

It was found that the OFT had failed to invest enough in regulation, it was too slow to revoke credit licences, and it had never fined a firm for bad practice. The PAC found that the OFT lacked essential information on how much lending was being done by each firm and how different people used consumer credit, and also lacked information on the types of harm suffered by different groups of borrowers.

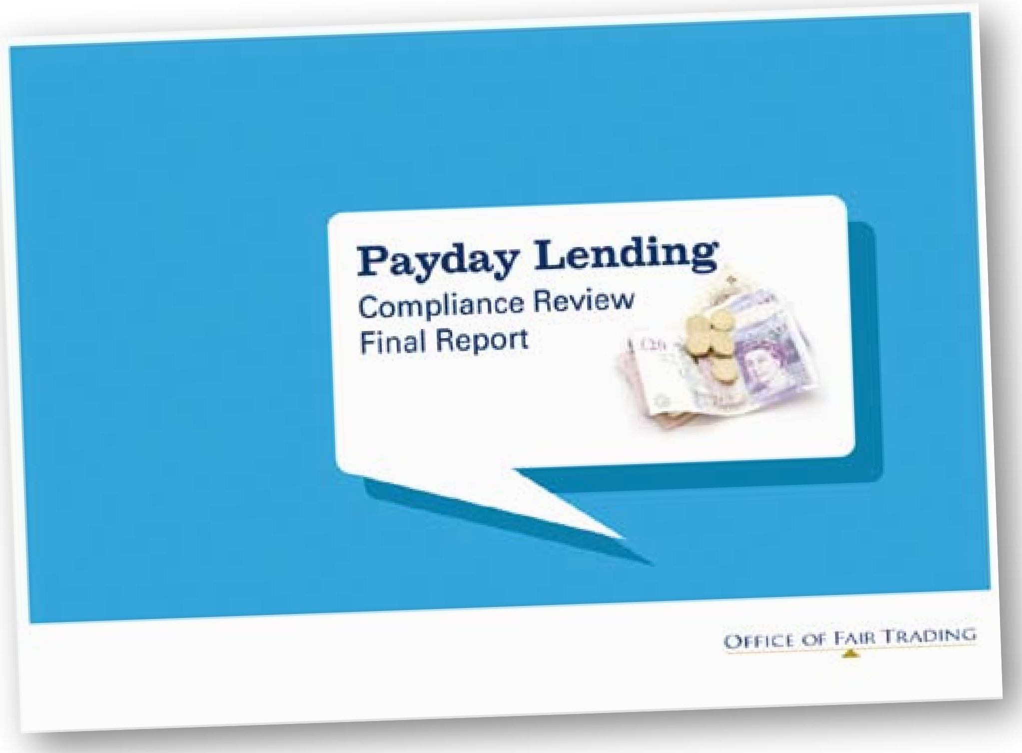
After receiving such heavy criticism from the Committee of Public Accounts, the OFT finally took action earlier this year, giving 50 lenders (90% of the market) 12 weeks to clean up their act or face their licences being revoked. 19 have since decided to leave the payday lending market; three had their licences revoked; and three companies have surrendered their licences.[15]

> **"The fact that many lenders would rather leave the market than face scrutiny from the regulator shows just how bad practice has been in this fast-growing industry. People are increasingly turning to high-cost credit just to pay for essentials or repay other debts, so it is vital that the Government and regulators continue to get tougher on irresponsible lenders."**
>
> Richard Lloyd, Executive Director of Which?

In June the OFT also referred the whole industry to the Competition Commission to be investigated; this process will take at least 18 months, so the verdict will not be known until November 2014 at the earliest.

The fact that many lenders would rather leave the market than face scrutiny shows just how bad practice has been

Which?



The Office of Fair Trading cost consumers £450 million a year by failing to identify risks of malpractice

Public Accounts Committee

Ensuring affordability

Payday lenders should not lend money to people who cannot afford the repayments.

Many consumer and campaign groups are calling for the OFT (and the Financial Conduct Authority when it starts working) to enforce proper affordability checks to assess whether borrowers can truly afford the credit being offered to them. The recent OFT enquiry into payday loans found that lenders' policies and procedures on affordability assessments were often incomplete, lacking essential information such as loan acceptance criteria and how consumer data should be used to reach lending decisions. They also found that some lenders would still offer loans and credit even when the borrower did not fit within the lender's written criteria.

> **"I was told not to worry [about paying it back by next payday] as most people extended their loans – I feel I was encouraged to extend rather than pay back the full amount."**
> Customer, reporting to the OFT

An affordability assessment should include a calculation which considers the borrower's income, expenditure and ability to repay the debt in a sustainable manner. The assessment must include any existing credit commitments (particularly when further credit is being taken out to repay existing debt). The Office of Fair Trading needs to clarify the Irresponsible Lending Guidance, which currently requires lenders to ensure that borrowers can afford to maintain "normal/reasonable outgoings" once credit repayments are taken into account. The term "normal/reasonable outgoings" is not currently defined. The OFT should consider setting benchmarks to guide lenders' decisions, including possible ratios of credit repayments to income after housing costs.

One approach would be to use the Minimum Income Standard (MIS) as a tool for assessing affordability.[16] The MIS is based on detailed research into what items need to be included in a minimum household budget. The results show how much households need in a weekly budget and how much they need to earn in order to achieve this disposable income. A minimum standard of living in Britain today includes, but is more than just, food, clothes and shelter. It is about having what you need in order to have the opportunities and choices to participate in society.

The MIS holds the potential to inform 'residual income' approaches to determine the affordability of credit repayments. It provides a baseline level of expenditure, before credit repayments, which needs to be met in order for the household to obtain a socially acceptable standard of living.

The Centre for Responsible Credit has conducted detailed research into the affordability of credit for low-income households, and assessed what proportion of the MIS would be left after taking out credit at different rates. It found that households whose income falls in the lowest 20th percentile have substantially less than they need to maintain a socially acceptable standard of living, even before the cost of credit is taken into account. For these households, the cost of consumer credit can greatly magnify the shortfall already experienced. In extreme cases of high-cost borrowing, households would have to forego around a third of necessities to meet their credit payments.[17]

Using the Minimum Income Standard to assess affordability could ensure that borrowers are left with enough income to afford necessities

Time for action

We have the opportunity to tackle these problems now.

In response to the growing sense of an industry out of control, the Government held its own payday lending summit in July. This brought together ministers, regulators, consumer groups and payday lending companies to discuss concerns about the industry. Jo Swinson, Minister for Consumer Affairs, described the summit as "an excellent opportunity to deliver a strong message to the payday industry to get its house in order".

The summit particularly focused upon the new Financial Conduct Authority (FCA), and what its priorities and powers will be when it comes into effect in April 2014. The FCA has been given stronger powers to ban products, impose unlimited fines and order companies to pay back money that should not have been taken from consumers. The FCA will also ensure compliance with legislation, with a particular focus on affordability assessments, CPA abuse and the way rollovers are used.

After a cross-party campaign in parliament, led by Stella Creasy MP, the Government agreed that the Financial Conduct Authority (FCA) will also have the power to set an interest rate cap on payday loans, and to restrict their duration and the amount of times they can be rolled over. The High-cost Credit Bill introduced by Paul Blomfield MP, which sought to introduce stronger regulation of the payday lending sector, has also received strong cross-party support.

On 3 October, the FCA started a consultation on how to use its new powers to regulate payday lending. Whilst there is cross-party support for action, it is vital that the FCA is emboldened to seize the moment, and use its powers to provide real protection for borrowers from irresponsible lending practices.

After years of ineffective regulation, the creation of the FCA provides a historic opportunity to stop the payday loan rip-off. It is up to all of us to ensure that this opportunity is not missed.

Take action!

You can help to ensure that the FCA seizes this opportunity to stop the payday loan rip-off.

- Visit www.church-poverty.org.uk/drowningindebt and send an email asking your MP to support Charter
- If you're a member of a church, union or other organisation, persuade them to sign the Charter.
- Share this report with friends, family and colleagues. Ask them to support the Charter too.

Credit unions

There is an affordable alternative.

The problem of extortionate and irresponsible payday lending cannot be tackled in isolation. In the absence of affordable alternative sources of credit, people will remain trapped in debt, and forced to turn to irresponsible lenders, whatever the financial or personal cost.

We therefore also need a major expansion of affordable alternative sources of credit for people on low and middle incomes – including in particular the UK's burgeoning credit union movement.

Credit unions provide a key alternative form of social lending, and have been identified by the government as an important means of tackling financial exclusion. Credit unions are registered and regulated mutual savings and loan organisations which allow people to save regularly and then borrow when they need to.

Internationally, credit unions have a proven track record in providing access to affordable credit and a wide range of other financial services to millions of members. There are active credit union sectors in 101 countries, with 56,000 credit unions, more than 200 million credit union members, assets of almost $1.7 trillion and loans of almost $1.1 trillion. Credit unions have high penetration rates in many developed countries, including 43% of all citizens in Canada and 45% in the USA. In Ireland, almost three-quarters of the total population are members of credit unions.[18]

Historically, the credit union movement within the UK has struggled to take hold. But with strong support from Government, and leadership from within the sector, many credit unions across the UK are now starting to grow rapidly, not just in terms of membership, but in the range of services they are able to offer to their members.

At the end of September 2012, there were around 400 credit unions across England, Scotland and Wales employing more than 1,500 staff, with over one million members, total assets of £957 million and total loans of £606 million. 22 credit unions across the UK now offer current accounts, and some credit unions also offering mortgages, cash ISAs and insurance products. In the decade from September 2002 to September 2012, the sector more than doubled membership and loans, and almost trebled deposits and assets.[19]

The latest Department for Work and Pensions Credit Union Expansion Project is supporting credit unions to expand further and become more financially sustainable, with the aim of serving one million more people by 2019.

Alongside this, there is a key role for civil society in promoting the growth of credit unions.

- Local authorities and other employers can promote credit union membership to their employees, including encouraging regular monthly savings via their payroll systems.
- Faith and community groups, trades unions, education, development, finance institutions and others can promote the advantages of credit union membership to their own members.
- Local institutions – churches and charities amongst them – can now invest directly into credit unions, increasing their ability to lend to people in direct competition with payday and other high-cost lenders.
- People with professional, business, finance or a whole host of other skills can offer their services to help credit unions meet the often complex and challenging demands involved in rapidly expanding to meet local need.

In July, the Archbishop of Canterbury announced that the Church of England will lead a major decade-long programme, working in partnership with the credit union movement and others to promote the expansion of credit unions to the point where it will "compete the payday lending industry out of business".

We commend this initiative, and invite local authorities, charities, faith groups and other civil society organisations to add their weight to the campaign.

Savers and borrowers visit South Yorkshire Credit Union
(Photograph by Helen Barrios at The Timeless Media, www.thetimelessmedia.co.uk)

Local action

Local authorities are taking a lead in tackling payday lending at local level.

Alongside promoting credit unions, local authorities are increasingly taking the lead in restricting the ability of payday lenders to target vulnerable people at a local level.

In July, Plymouth Council became the first local authority in Britain to ban payday lenders from advertising on billboards and bus shelters in the city.

> **"Plymouth's advice agencies are taking calls daily from people who are running up huge debts that are causing stress and hardship to them and their families. We need to protect people and make it difficult for payday loan companies to operate in our city but we do recognise times are hard. We are working with our partners to make credit union services more easily available in the city centre, this is an affordable lending option for people that won't trap them with massive interest rates."**
>
> Chris Penberthy, cabinet member for Co-operatives and Community Development[20]

Access to the 50 most popular payday loan websites will also be blocked across the Council's entire computer network, including libraries and community centres. Earlier in the year, Cheshire East became the first English council to ban the websites in this way, following a similar move by councils in Dundee and Renfrewshire. But Plymouth's move raises the game. It could prove to be a major step in keeping expensive lenders off our high streets.

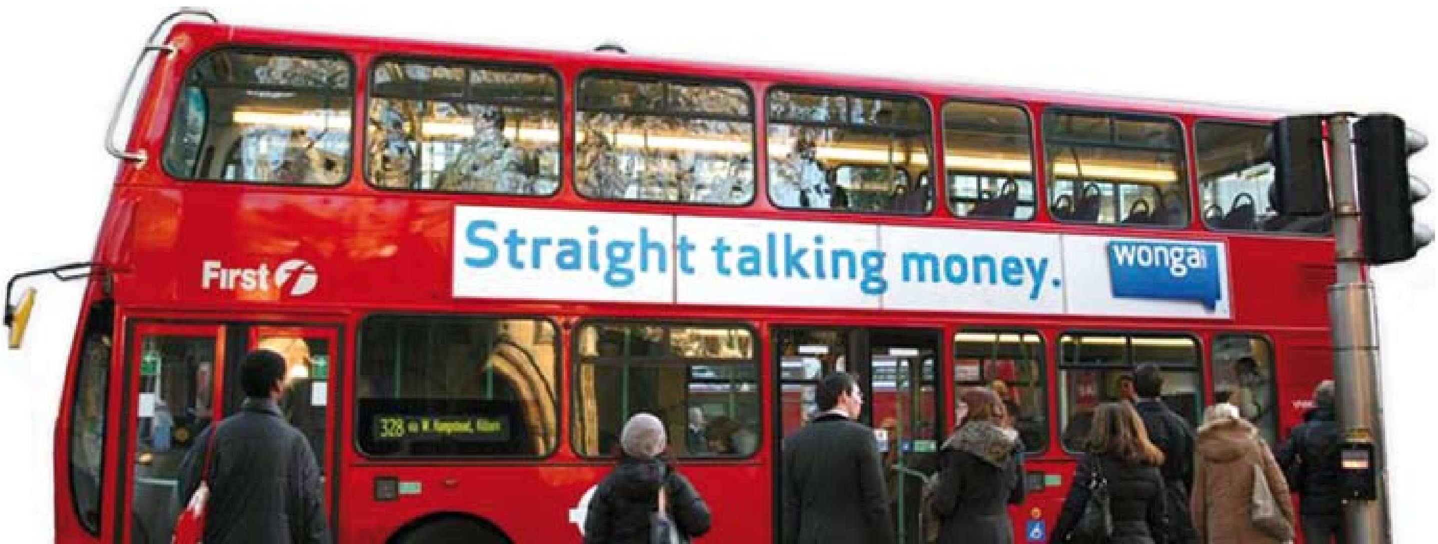
Several other authorities – including Birmingham, Brent, Cheshire East, Medway and Sandwell – have either already followed the lead given by Cheshire East and Plymouth, or are giving it serious consideration.[21]

We would encourage many more local authorities to consider how they can respond in their areas. These are some of the other ways councils can take action:

- Promoting and supporting the development of credit unions and more affordable lending.
- Lobbying the Government for new planning powers to stop the growing numbers of payday lenders and high-cost credit shops.
- Calling on banks to produce action plans showing how they will improve the availability of credit and financial services to people on low and middle incomes in your area.
- Lobbying the Government and FCA to ensure payday lenders reveal information about the volume of loans being made in local areas.
- Working with partners to lead campaigns against increasing levels of personal debt.
- Passing a Council Motion in support of the 'Charter to Stop the Payday Loan Rip-off'.

We need to protect people and make it difficult for payday loan companies to operate in our city

Plymouth Council



Endnotes

1 Illegal loan sharking can be traced back to the late 1800s in the US, where the practice was normal among workers who could not obtain bank accounts. The practice of usury goes back even further – it is condemned in the Old Testament and Islamic texts.

2 www.thebureauinvestigates.com/2013/09/05/payday-loans-companies-charging-up-to-7000-experience-huge-growth/

3 www.cfa-uk.co.uk/information-centre/payday-facts-and-research/payday-facts-and-research/the-payday-lending-market.html

4 www.openwonga.com/uk/news-and-views/view/wongas-annual-report-2012

5 www.citizensadvice.org.uk/index/pressoffice/press_index/press_20130528.htm

6 www.independent.co.uk/money/loans-credit/special-report-the-dark-side-of-credit--a-million-new-payday-loans-every-month-8680018.html

7 www.dailyrecord.co.uk/by-date/06-08-2013

8 www.oft.gov.uk/shared_oft/Credit/oft1481.pdf

9 http://money.aol.co.uk/2013/09/02/payday-lenders-to-push-loans-even-harder/

10 www.thisismoney.co.uk/money/news/article-2407865/Wongas-profits-soar-100m-bid-curb-payday-lenders-ends-failure.html?

11 www.gov.uk/government/uploads/system/uploads/attachment_data/file/193471/rrep800.pdf

12 www.theguardian.com/money/2013/oct/01/payday-lenders-bank-account-restricted-bills-rent

13 blogs.citizensadvice.org.uk/blog/payday-lenders-broken-promises/

14 www.guardian.co.uk/money/2013/may/31/oft-criticised-ineffectual-payday-loans-policing

15 www.oft.gov.uk/OFTwork/credit/payday-lenders-compliance-review/#.UhNFx3_B-So

16 The Minimum Income Standard was developed by The Family Budgeting Unit (with researchers from York University, members of the public and experts in the field). It is now managed by the Centre for Research and Social Policy at Loughborough University. www.minimumincomestandard.org

17 *Can consumer credit be affordable to households on low incomes?* by Damon Gibbons, Lovedeep Vaid and Laura Gardiner (Centre for Responsible Credit, 2011)

18 World Organisation of Credit Unions (WOCU) Statistical Report 2012

19 www.abcul.org/media-and-research/facts-statistics

20 blogs.independent.co.uk/2013/07/22/keep-out-payday-lenders-council-bans-payday-loan-ads-from-billboards-and-bus-shelters/

21 www.localgov.co.uk/index.cfm?method=news.detail&id=110859

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