Illegal Moneylending in Scotland:
Exploring the Experience of Customers, and Organisations Working with Them

Nick Hopkins Consulting with Craigforth
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This research was conducted by Nick Hopkins Consulting in association with Craigforth.

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This research is available from the Trading Standards Scotland Website www.tsscot.org.uk

The views expressed in this report are those of the researcher and do not necessarily represent those of COSLA or its membership
Executive Summary

In September 2017, Trading Standards Scotland commissioned Nick Hopkins Consulting, supported by Craigforth, to deliver a commission exploring the experiences of people using illegal moneylenders in Scotland, and those of the organisations working with them.

The consultants and Trading Standards Scotland identified ten questions that would be explored by the research:

1. The financial circumstances that trigger need for credit amongst the customers of illegal moneylenders.
2. The reasons why customers of illegal moneylenders use that source of credit, rather than others.
3. Customers’ experiences of accessing and repaying illegal moneylenders, and of enforcement of compliance with repayment terms.
4. The financial and psychological impact of using illegal moneylenders.
5. Customers’ experience of seeking/engaging with help and/or moving away from illegal moneylenders.
6. How customers have changed their behaviour to avoid future problems.
7. The financial and psychological impact of changing their behaviour.
8. Advice and other organisations’ experiences of reaching out to customers of illegal moneylenders.
9. Advice and other organisations’ experiences of supporting customers of illegal moneylenders.
10. Ways in which customers of illegal moneylenders can be engaged more effectively, and better alternatives provided.

The researchers carried out:
- A literature review relating to moneylender use and the context facing people vulnerable to using moneylenders.
- 12 interviews with users of illegal moneylenders, despite the extensive efforts of the consultants a far smaller number than initially envisaged by the consultants, although in line with the expectations of Trading Standards Scotland.
- Interviews with professionals working with people using illegal moneylenders or supporting those working with them.
- A focus group with staff based at Trading Standards Scotland, the client for this research.

Section 3: Recent Literature and Current Context Facing Households on Low Income

Overview of Recent Literature
- There is not an extensive recent literature on the use of illegal moneylenders, the work of Anna Ellison et al’s ‘Illegal Money Lending in the UK’ and her team’s evaluations of the illegal money lending pilots being the exception.
- Ellison’s estimate of the size of the market for illegal money lenders is that it involves around 168,000 households and is £120m in size. This is much smaller than the home credit market, although it may be an underestimate.
- Concerns are expressed in the literature that the credit crunch and recession may have increased the usage of moneylenders.
- The main driver for moneylender use is identified as being exclusion from other forms of credit, although most who are excluded from other forms of credit do not borrow, or seek to borrow informally.
Home credit is identified as the key source of alternative credit for the customers at risk of using moneylenders, alongside the Social Fund [as was].

The users of illegal moneylenders are characterised as being the most disadvantaged people in the most disadvantaged communities and facing deeper and longer problems in terms of finance, employment and health than the also disadvantaged average home credit user.

Communities where moneylenders operate are characterised as tight knit and inward looking.

Users of illegal moneylenders seek them out to finance escape from financial crisis (40%), for day to day living, Christmas, major purchases or repairs.

The average size of loan is identified as being £100 to £500, with Scotland also having a culture of users accessing very small loans.

Customers reported paying around £285 for every £100 borrowed, three times the cost of home credit, and much more than expected at the start.

Moneylenders use tactics including opacity of loans, charges for late payment, compulsion and intimidation to keep clients paying.

Different types of lender are identified, from those operating in a quasi-legal way, to those with serious criminal connections.

**Economic Context.**

- Low to middle income households, those most likely to use moneylenders, have faced a living standards squeeze since before the recession of the late 2000s.
- Many households find it difficult to build financial resilience in the context of the growth of zero hour contracts, agency jobs and part time underemployment.
- A decade of welfare reform has further squeezed incomes, with further cuts on their way as recent reforms are rolled out.
- The lowest two income deciles will see their incomes fall by 8% over the decade to 2022 on current policy trajectory. Child poverty will rise from a quarter to a third of Scottish children over that period.
- The impact of reducing incomes will be felt most significantly by women, households with children particularly lone parents, households with more disabled members, households with more seriously disabled members, parents on low incomes, people from BME communities, and people in the 35-44 age group.
- This income squeeze will impact on households’ experience of debt, their ability to access credit, and their ability to save.

**Destitution.**

- Users of moneylenders will be largely drawn from amongst people who are destitute or who are in severe poverty.
- Extrapolating from UK wide research by the Joseph Rowntree Foundation, 127,000 Scottish residents living in 64,500 households and including 30,000 children will experience destitution over the course of a year.
- The population who experience destitution may be seen as consisting of three groups; those experiencing long term poverty, whose destitution is triggered by an external event (68% of UK destitute population), those living in chaotic circumstances (15%) and those who are migrants and lack formal access to the labour market and have no or reduced access to state financial support (16%).
- Triggers for destitution amongst the first group include; benefit sanctions; key aspects of Universal Credit such as payment delays; benefit overpayments; changes in entitlement or transition to a new benefit; stricter debt recovery by public agencies; the withdrawal or shrinking of local welfare funds (in England).
Many people may also find destitution triggered by problems relating to their health, family circumstances, and employment issues, and, for those with complex needs, addictions issues and eviction.

People may turn for support to escape destitution from; family and friends, most commonly; from local welfare funds; and also from the voluntary and faith sectors, including foodbanks.

**Trends in the High Cost Credit Market.**

- The high cost credit market has been contracting over recent years, in terms of the number of customers, of loan originations, and of value.
- There has been a very significant contraction in the high cost/short term (payday lender) credit market, with half the previous number of borrowers and one third of the previous number of loans being made.
- Other high cost lenders are also changing their lending policies, constraining the availability of credit for low income households.
- Although the characteristics of those rejected by payday lenders are different from those rejected by home credit providers, in short they are better off, the fact that most of those so rejected do not seek to borrow from elsewhere is suggestive that credit exclusion is often responded to by people seeking informal help from friends/family or belt tightening.
- Expectations of credit market tightening leading to large increases in moneylender use may therefore not be borne out.

**The Scottish Welfare Fund and Budgeting Loans**

- The Scottish Welfare Fund may have a key role in supporting people who might consider using/have used illegal moneylenders.
- There were 229,920 applications to the Scottish Welfare Fund in 2016/17, 67,480 for CCGs, 164,970 for Crisis Grants.
- 63% of CCG applications were successful, 71% of Crisis Grants.
- Applications were most commonly rejected for not meeting the criteria, and in relation to Crisis Grants, because of the number of previous applications.
- Single people and single parents were the household types most likely to benefit from the Scottish Welfare Fund.
- In 2016/17 there were 131,300 applications for DWP administered Budgeting Loans to a value of £410m.
- Disabled people, unemployed people, and lone parents were those households most likely to benefit from Budgeting Loans.
- Over a third of applications rejected were refused because of applicants’ outstanding debt.

**Section 4: Customer Experience**

**Financial Pressures:**

- Many of the interviewees had found themselves destitute, facing the prospect of going hungry or without power.
- The loss of income due to a change in benefits was the major driver of such situations, including being sanctioned or transferring to Universal Credit.
- The loss of employment or pay, even if short term, could also act as a trigger.
- Situations could be compounded by difficult or abusive domestic situations.
- Some interviewees had, generally in the past, borrowed to finance addictions.
- Some borrowing from interviewees was to meet the cost of Christmas presents.
- Interviewees also reported borrowing from moneylenders for different reasons at different times of their life, or for more than one reason at once.
**Alternative Sources of Help/ Loans:**

- Interviewees could not generally borrow from their family. Families may not be present, may not themselves have money to lend, or their relationship with interviewees may be poor or non-existent. Asking for help from families may also feel embarrassing.
- Interviewees had often not sought to borrow from mainstream high cost lenders due to previous problems with repayments, whilst others actively avoid them due to cost. Self employment was also reported as a barrier to accessing such credit.
- Some interviews were suggestive of a reduced presence of home credit providers within some Scottish communities.
- Many interviewees had sought support from the Scottish Welfare Fund, but had had their application rejected. The reasons for rejection were not always apparent from the interviewees themselves.
- Interviewees may borrow from a variety of sources concurrently.
- There is no sense that borrowers are financially included, or that savings or credit unions are realistic or understood options for interviewees.

**Knowing Who to Go to:**

- Interviewees often find moneylenders through friends or neighbours.
- Others do so through their existing knowledge of who lends money within their tight-knit community.
- Some interviewees report open discussion of moneylenders within communities, although this picture was not supported by others.

**Making Contact with Moneylenders:**

- The process of making contact with moneylenders does not appear complex, although it may involve some due diligence from the lender.
- Moneylenders may be met in users’ homes, on the street or in another public place, or in their own homes.
- Engaging with a moneylender may be an awkward experience, particularly where users are not used to doing so.
- Contacting a moneylender can feel a small step that led to big problems.

**Size of Loan/ Terms of Payment:**

- There was significant variation in the size of loans taken out by interviewees.
  - Some were for small amounts, as little as £20 or £30 to cover household necessities.
  - Others had borrowed larger amounts to replace what they hoped would be a temporary fall in income or to purchase Christmas presents.
  - One interviewee had borrowed around £2,000.
- Whatever the amount, interest charged was between £3 and £5 for every £10 borrowed with repayment expected within a very short period.
- Interviewees sometimes reported the terms of the loan simply, sometimes in a complex way.
- Few interviewees seem to have been price conscious in their ‘choice’ of lender.
- Interviewees were generally aware from the start that a failure to repay on time would leave them facing increased financial costs.
- Initial optimistic feelings from some interviewees about loans turned negative when difficulties repaying began to bite, and/or their need for credit turned out to be longer term than they had expected.
- Some interviewees were clear from the start about the high cost of their borrowing.
• Others were not, and had experienced a hurried transaction with lenders, or felt that the lender had deliberately obscured the cost and terms of the loan.

**Enforcement of Payment:**
• Many interviewees had been subject to harassment and felt pursued by the moneylender through frequent or constant contact.
• Interviewees could feel watched and harassed in their own homes, the latter appearing to be a particular tactic of moneylenders.
• Pursuit for payment was typically experienced immediately after receipt of benefit payments.
• Moneylenders appear to have a sense of impunity and operate quite openly.
• Some interviewees had experienced threats, often of serious violence, setting out the consequences of not paying.
• Intimidation could take the form of a sustained campaign which might also target family members.
• Lenders’ membership of a gang, or criminal associations could reinforce threats, or make explicit threats unnecessary.
• Lenders may effectively exercise control over users, making them too scared to report their situation.
• Where one interviewee did report her situation on an enquiry basis, police advice deterred her from pursuing further.
• Some interviewees had sought to physically avoid lenders, without success.
• Lenders’ attitudes could vary and develop over time in terms of the level of intimidation used.

**Development of Users’ Borrowing Behaviour Over Time:**
• Interviewees typically struggled to repay their initial loan, or ended up taking out further loans, leaving them with real problems with the size of payments they had to make.
• Severe problems could start from small beginnings, with subtle tactics from moneylenders, for example seemingly offering generous forbearance, such as only repaying interest early on, leaving interviewees struggling.
• Interviewees were sometimes left making regular payments without being clear about how much of their loan remained to be paid.
• For one interviewee, long term moneylender user was closely managed and manageable, for others just about manageable only because it was short term.

**The Impact of Using an Illegal Moneylender:**
• Interviewees found using moneylenders stressful, to the extent of putting their mental health at risk.
• Interviewees reported high levels of anxiety because of both their engagement with the moneylender and their overall financial situation.
• Others found existing mental health problems or other life worries to be exacerbated, in one case to the point of hospitalisation.
• Interviewees were afraid of moneylenders, and felt very harassed, to the extent of not being able to live normal lives or feel safe in their home.
• For some interviewees, dealing with their loan had become the dominant issue in their life.
• Many interviewees were dealing with moneylenders at the same time as other very difficult, upsetting and stressful, life situations.
• The negative psychological impact of using moneylenders appears to intensify over time.
Interviewees often feared the potential for family members, particularly children, to get caught up in their situation with a moneylender. Family members aware of the situation could experience significant stress themselves.

Using moneylenders left some interviewees unable to afford household basics.

**Exiting the Situation: Key Points**

- Some interviewees had exited their situation with a moneylender, or were on the point of doing so.
- Some had managed to get together the cash to pay off the lender themselves, taking opportunities to put aside the money whenever they could, others had received help from family or friends, often receiving money from them to pay for household basics, rather than directly to pay to the lender.
- The Scottish Welfare Fund had enabled some interviewees to put aside money to pay off lenders, or had helped them stay on their feet once they had done so. It had not, for any interviewee, provided enough money to completely pay off debts.
- Foodbanks and other charities had played a similar role, although not all interviewees were prepared or able to access such support.
- Some interviewees had engaged with advice projects which were focused on building their financial capability to avoid the use of moneylenders and other problems in the future, with generally, though not wholly, positive results.
- Other interviewees did not feel that advice projects were or could have been a help dealing with their moneylender, and had tried to resolve their broader financial problems themselves.
- Interviewees who had repaid their loan, or who were near to doing so, generally looked to a fresh start, financially and psychologically, including making a commitment not to engage with lenders again.
- Some interviewees faced an ongoing situation, feeling that they had not yet escaped from their moneylender, and often fearing that they would not.
- Others who had paid off their loan were fearful of being forced into borrowing again.

**Section 5: Agency Experiences/ Views**

**Financial Pressures on Client and Debts**

- Pressures on clients driven by Universal Credit are a major concern for advice/social welfare professionals, although Universal Credit is not seen as the only driver of clients’ problems.
- Aspects of Universal Credit that are particularly driving problems were reported as being monthly payment, delays in payment, restrictions on direct payments, and the conversion of hardship payments to repayable loans creating long term problems.
- Clients moving in and out of work, those experiencing long term unemployment and those in the immediate aftermath of a job loss were all reported as being vulnerable to facing priority debt.
- Citizens Advice Scotland report recent rises in priority debt twinned with falls in consumer debt, the latter the result of people with fewer consumer credit options not having the opportunity to run up consumer debts.
**Client Use of High Cost Credit.**
- Clients were seen to get into trouble with high cost credit when they were long term unemployed, when they had borrowed to survive, or when they had just overstretched themselves.
- Home credit providers remain prominent in many communities, but there are different views amongst social welfare professionals of their prevalence amongst clients’ creditors. Some suggest that their use may have reduced, that people are looking to rent to own retailers for domestic goods, and/or that usage is more common amongst slightly older customers, whilst others see them still as ‘embedded’ in their communities.
- Payday lenders are seen as reducing in importance - ‘they were a thing for a while’, with some payday providers shifting to longer term loans.
- Younger people are thought to be increasingly using online providers, attracted by speed of access and anonymity.
- Catalogues continue to be a prominent source of credit.
- One new type of credit, guarantor credit, where a loan is taken out guaranteed by a friend or family member, is being increasingly observed.

**Informal Borrowing**
- People consistently turn to family and friends to borrow for smaller amounts, particularly when they hit a financial crisis, or when they are without financial support through benefits for a period of time.
- This is still borrowing; people are expected to pay back.
- Tensions can arise within families and between friends if loans aren’t repaid.
- Some clients have exhausted the goodwill/ forbearance of family and/or friends.
- Clients and advice workers treat such debts as a priority because of the risk to family relationships.

**Client Triggers for Seeking Help**
- Advice sector interviewees reported that clients seek help at a number of points in the progression of their problems.
- Some seek support then their debts are very high and out of control, others because they have small debts causing them intense worry.
- Other clients seek help for other issues, and a comprehensive exploration of the problems they face leads to identification of debt issues.
- Referral through an intermediary organisation/ outreach work with an intermediary is a key route into support for many.
- There were differences of view between teams administering the Scottish Welfare Fund. Some felt that information about the fund reached the vast majority of those who might need to know about it, others felt that knowledge of the fund, its purpose and how to access it was not widely enough spread, possibly as a conscious mechanism for controlling demand.

**Relationships with Clients**
- Advice workers reported developing trusting relationships with clients that allowed the latter to disclose a whole range of issues impacting on their lives, including non-financial issues such relating to suicide, domestic violence and other crises.
- However, it was acknowledged that these relationships can take time to build.
- Those working for the Scottish Welfare Fund have a short term or one off relationship with clients, but that still involves the revealing of a significant amount of relevant case information.
**Engagement with Clients Using Moneylenders.**
- Some social welfare professionals reported engaging with clients/applicants using moneylenders, others reported that such engagement was extremely rare or non-existent.
- Scottish Welfare Fund staff were the interviewees most likely to report such engagement, but that was not the case for all such staff.
- Some interviewees, notably one working for a social lender reported only intermittent engagement with users of moneylenders.
- The extent to which some advice workers did not encounter those disclosing use of money lenders was striking; some reporting not seeing it in 20 years of work.
- Even one project proactively looking to identify moneylender use amongst a vulnerable group of people with mental health problems had not been able to do so.

**Reasons for Non Engagement/ Hidden Use.**
- Interviews explored social welfare professionals’ views on the reasons why they had not engaged with clients disclosing moneylender use/using moneylenders.
- Some felt that that some of their clients would be using moneylenders but would be very reluctant to disclose such; in the same way they might be reluctant to disclose drug use, perhaps because of fear of repercussions as a result of disclosure.
- Some professionals suggested that any clients using moneylenders would be aware that there was little that could be done to assist them by the advisers, or would be frightened of being reported, or would simply fear the loss of a line of credit, a pattern sometimes observed in relation to disclosure around home credit.
- Others took non-disclosure as a strong indicator that their clients were not in fact using moneylenders, confident that their openness about other personal issues would continue in respect of moneylender use if clients were involved in that.
- Some felt that illegal moneylending was just not happening in the way that it once had in their communities, or that it had not been an issue for a long time, if ever.
- Some professionals suggested they were just not seeing clients who were using illegal money lenders, because they were not engaging with some of the most excluded groups, or younger unemployed people.
- Professionals did not believe there was much evidence that moneylender use was being hidden in borrowing from family, friends or acquaintances. Where clients were reporting a couple of hundred pounds from friends or acquaintances, this was not being associated with disclosure of intimidatory tactics.
- Similarly, whilst money advisers did identify gaps in client self-reports of expenditure, there was no sign of this hiding use of illegal moneylenders.
- Others felt that clients would prefer to turn to pay day lenders or home credit providers, or informal credit from shops. It was suggested that increased use of online lenders might be reducing the demand for moneylenders.
- Foodbanks were also seen as alternative survival mechanism.
- There was agreement that use of language such as ‘loan sharks’ was not always conducive to customers’ disclosing use of moneylenders, as it does not always reflect the nature of their experience.
**Current Practice**

- Professionals spoke about a number of different possible responses to a client reporting the use of a moneylender.
- There was agreement that nothing should be done in terms of reporting without the consent of clients, and that clients should have various reporting options laid out for them.
- These options might include reporting the situation to the police or Trading Standards Scotland.
- Advice workers were clear that they had limited practical options for supporting clients.
- Referral to advice and financial capability projects, and where appropriate to projects working on addictions, were considered to be potential interventions, but ones which not all clients would accept.
- There was openness from advice professionals to working with Trading Standards Scotland to promote the potential availability of alternatives to moneylender usage/ routes for escaping moneylender usage in communities in which they were known to be active, as long as resources were in place to support follow up work.

**Feedback from Trading Standards Scotland**

- The focus group with Trading Standards Scotland staff explored a range of issues.
- There was agreement that use of illegal moneylenders was driven by people excluded by legal borrowers, offering quick access to a client group that often experienced literacy issues.
- Users of moneylenders were reported as often experiencing long term social exclusion, may have chaotic lifestyles, and may be part of highly vulnerable extended families.
- There are niche markets in which users are less vulnerable, often associated with migrant communities.
- TSS staff agree that many of those using moneylenders are not in contact with any public or support agency or actively avoiding contact, and that many have been left highly vulnerable by cuts to the safety net.
- Users of moneylenders often see such loans as their first priority for payment, and payment as a duty.
- The reluctance to report moneylenders is very strong, and stems from fear, of repercussions, of being seen as a ‘grass’ and/ or of loss of a line of credit. It might be seen as analogous to people’s reluctance to report a drug dealer that they are using.
- Fear of loss of a credit line was seen as potentially explaining why reports of moneylending use have not increased, even in the context of increased pressure on low income households.
- There are different types of illegal moneylenders.
  - Some may have been involved in the home credit industry and effectively be acting in parallel to that industry.
  - Others may have long term connections or involvement in lower level criminal activity, from which they may have made the transition to moneylending, and operate with the ‘permission’ of local criminals. The extent of involvement with organised crime is not always clear.
- Illegal moneylending may happen anywhere in Scotland, but is particularly likely to occur in tight knit, insular, post-industrial communities.
- Moneylenders use tactics such as keeping loans opaque and levelling charges for non-payment to generate their profit.
Payment is enforced by a mixture of harassment in person or by phone, backed by intimidation, although lenders are generally reluctant to follow through with violence as it risks losing customers and triggering police involvement.

There is suspected to be increased use of electronic means of payment, for example PayPal, and of social media to recruit users.

Section 6: Reflections on the Recruitment Process and Engagement with Intermediaries: Where Are the Customers of Moneylenders?

Recruitment of users of moneylenders was much more difficult than had been expected.

This was a surprise in the context of the socio-economic pressures that are facing people on low incomes in Scotland.

A number of hypotheses explaining this unexpected situation were explored:

- Illegal Money Lending is not/ no longer an issue in Scotland.
- The number of people using money lenders is simply very small, and not growing/ not growing significantly.
- People who would formerly have used money lenders/ who previously used high cost credit to meet basic needs are turning to foodbanks.
- People who would formerly have used money lenders are now using other sources of high cost credit/ people rejected by a previously relied upon source of high cost credit are finding other such sources.
- Borrowing from illegal money lenders is hidden amongst borrowing from family and friends.
- Advice agencies are not engaging the most vulnerable people most likely to use moneylenders.
- Advice agencies are engaging with customers of moneylenders who hide that usage from them.

The consultants would suggest that whilst there is contradictory evidence in relation to many of these hypotheses:

- Moneylending is still happening in low income communities in Scotland, certainly in West-Central and South West Scotland.
- However, there is little evidence for the idea that it has become more common over the last decade, and it may indeed have become less common and certainly less visible in many communities. Fears of the recession driving an increase in moneylender use do not appear to have been borne out. The numbers of people involved are certainly small.
- This lack of growth may reflect the increased availability of foodbanks to support people who are facing destitution, and a shift to other forms of credit where people are not wholly excluded from the legal credit market. The latter shift may be hidden in broader credit market statistics by the small numbers of people involved.
- The lack of expected growth will also reflect the determination of the majority of people excluded from other credit sources not to lose control of their finances by borrowing from moneylenders.
- Advice agencies may not always be engaging with the most vulnerable people at the point at which they are using moneylenders; those people may be in contact with no public agency, or with a different set of agencies perhaps working on housing support or addictions issues.
- Where they are engaging with very vulnerable clients who are using moneylenders, it is very possible that those clients are hiding that usage from them, suggesting there may be something uniquely difficult about disclosing the use of moneylenders to others.
- There is no evidence that use of illegal moneylenders is hidden amongst family and friends.
Section 7. Conclusions and Recommendations

The financial circumstances that trigger need for credit amongst the customers of illegal moneylenders.

- The research strongly suggests that use of illegal moneylenders is driven in immediate terms by the following factors, sometimes singly, sometimes in concert:
  - The experience of destitution, of not being able to afford food, most commonly, or to pay for gas and electricity.
  - The collision of a desire to make a larger purchase, poverty and a lack of other credit options.
  - Addiction.
- Those affected by destitution:
  - Have no other credit options or have exhausted such.
  - May borrow very small amounts, as little as £30.
  - May have often been placed in that situation by the impact of welfare reform, in particular by the impact of transitioning to Universal Credit, or benefit sanctions, or another loss of income.
  - May face a particular push to borrow where they have dependents.
- Those borrowing from moneylenders to make larger purchases were generally doing so to finance Christmas gifts to other family members.
- The prevalence of ill health, particularly mental ill health amongst users was very striking.
- Only one interviewee using an illegal lender could be described as not being in poverty, and he had been in precarious self-employment, with a highly uncertain income flow, alongside experiencing addiction issues.

The reasons why customers of illegal moneylenders use that source of credit, rather than others.

- Moneylenders are a last resort for those with no other source of credit.
- Past use of high cost credit is common, but people have often decided not to seek to borrow again from such, believing that they would be rejected on the basis of past payment history problems, or of lacking any borrowing history.
- Some decide not to seek money from sources such as home credit because of what they consider to be its exorbitant cost.
- There is also some indication that the presence of providers of home credit in some communities may have reduced.
- For some the speed, immediacy of access or the ease of access to cash from moneylenders makes them preferable to, or as attractive as, other high cost lenders.
- People using money lenders lack informal support from families or friends. Asking families or friends can be difficult and embarrassing, and often they are not seen as being in a financial situation that enables them to help.
- The ability of families and friends to help informally may have been eroded by austerity.
- Estrangement from, or the temporary or permanent lack of availability of; previously relied on family members can also leave people looking to borrow from moneylenders.
- Rejection by the Scottish Welfare Fund is also a clear trigger for increased likelihood of moneylender use.
- There is no evidence at all that credit unions or personal savings are potential sources of needed cash for people at risk of using moneylenders.
Customers’ experiences of accessing and repaying illegal moneylenders, and of enforcement of compliance with repayment terms.

- People access moneylenders through word of mouth, either through the recommendation of friends, acquaintances or neighbours, or through people lending money illegally being widely known within their community.
- The process of accessing moneylenders appears to be easy, with initial contact being made directly by phone, by street approach, or by visiting the lender. There appears to be a preference from moneylenders to visit users in their own home to hand over cash.
- Interest charged seems to generally sit between £3 and £5 per £10 loaned, to be paid back immediately on receipt of benefit, or in a small number of instalments. Where loans are more expensive, the risk of more negative experience is increased.
- Most customers appear to be clear at the start about the terms of repayment, and the financial consequences in terms of increased repayments that would result from not paying.
- Changes in the amounts charged, deliberate obfuscation of repayment terms, and other tactics, such as only asking for the repayment of interest, and are used by lenders to maintain engagement and repayment over the longer term.
- Initial optimism about ability to repay seems often to turn into a feeling of struggle to repay. Users missing payments may end up paying high amounts of money on small initial loans, or borrowing on a number of occasions, sometimes increasing amounts. The situation for users may justly be described as a vicious circle, into which they may be drawn apparently slowly but ineluctably, or fall very quickly.
- Users may be subject to harassment. This may include lenders seeking them out in their own home, or at the bank when withdrawing money. Lenders often know when users newly have access to cash through benefit payments.
- More explicit threats of violence or damage to property may be made to users. The reputation of lenders and knowledge about their associates may reinforce threats, or mean that such threats are only implicit, or are subtle in nature.
- Lenders’ attitudes may change across the period of engagement with a user, changing in response to whether a user makes repayments as instructed.

The financial and psychological impact of using illegal moneylenders.

- Users find their mental health placed at risk, or may find existing mental health problems exacerbated by the stress of using a moneylender and the threats and harassment experienced. Many fear the potential impact of lender behaviour on family members.
- There may be exceptions to this, where users borrow from friends, or where they borrow regularly in what appears to be a small scale and controlled fashion.
- The financial impact of using moneylenders can be devastating, with users starting in destitution and ending in destitution, with only the loss of even more money and stress to show for their engagement with money lenders in between.

Customers’ experience of seeking/engaging with help and/or moving away from illegal moneylenders.

How customers have changed their behaviour to avoid future problems.

The financial and psychological impact of changing their behaviour.

- Those who escape moneylenders may do so largely under their own steam, taking opportunities to cobble together money as they present themselves, or with the support of their family.
Whilst the absence of support from the Scottish Welfare Fund can trigger the use of moneylenders, provision of support by the Fund can contribute to escape by freeing up resources to pay lenders.

Foodbanks and other charitable sources of humanitarian aid may also help in that way.

Those who access advice may use it to stabilise their situation prior to, or after, paying off their loan. Even those who engage constructively with advice services may not change their behaviour completely.

There is less sign of advice services helping people who are in the midst of engagement with a money lender, with users feeling that there is little that can be done to help them directly as they focus on getting the money to pay their debt.

Those leaving money lenders behind generally feel that this offers them an opportunity to make a fresh start. However, for those who have exited the situation, levels of concern about slipping back into a problem situation may remain high. People may feel that they remain ‘close to the edge’ and struggling to reach safer ground/ a more stable financial situation.

Some users who have been unable to exit their situation fear being trapped for the longer term, even if they manage to pay off their immediate loan. Others are more optimistic.

**Advice and other organisations’ experiences of reaching out to customers of illegal moneylenders.**

Advice and other organisations’ experiences of supporting customers of illegal moneylenders.

- Few people using money lenders were engaging with advice services, and few advice services were engaging with many people using moneylenders, even where they were dealing with very vulnerable clients and making the explicit attempt to reach out on this these issues.
- The Scottish Welfare Fund providers appear to engage with more users of money lenders, but they also suspect that applicants do not always reveal money usage.
- Users of moneylenders may not seek for help with that situation from advice organisations or hide the fact that they are borrowing from moneylenders, out of fear, stigma, or out of the belief that it will not help their situation.
- Users of moneylenders may not be in contact with many public organisations who might help with aspects of their situation, or those users who are in contact with organisations do not identify that they are using illegal moneylenders.
- It appears clear that the existing efforts to target the users of illegal moneylenders through the advice sector have not borne fruit. It may be the case that effort directed elsewhere could have more success.
- Though there is little experience of dealing with the customers of illegal moneylenders in the advice sector, staff within the sector were conscious of the limits of what they could do for users if they seek help. Many referred to making contact with Trading Standards Scotland as their likely preferred first step in such a situation.
**Recommendations**

1. The importance of the Scottish Welfare Fund as a mechanism for preventing people from using moneylenders, and as an assistance to extricating themselves from use of lenders needs to be understood, and acted upon.

   It is not clear whether those interviewees reporting that they had been rejected by the Scottish Welfare Fund before using moneylenders had been rejected because they had reached the maximum number of awards in a given time period, because they did not in some other way fulfil the relevant criteria, or because the fund was oversubscribed.

   However, it seems clear that increasing Scottish Welfare Fund budgets, increasing the awareness amongst potential referrers and fund administrators of the potential role of the Fund in supporting those using moneylenders, and training fund administrators to better identify clients using moneylenders could have a positive impact.

   Given concerns that awareness of the Scottish Welfare Fund might not be as high amongst potential users as it could be, these efforts and this investment should be accompanied by a new publicity drive.

2. The lack of success from projects designed specifically to reach people using moneylenders, means that it is difficult to set out ways in which future specific projects or the sector more generally might better engage with them.

   Initially at least Trading Standards Scotland should therefore focus on conducting a wide ranging discussion with the advice sector, supported by CAS and MAS, focused on exploring the reasons for non-engagement between users of moneylenders and the advice sector.

3. Trading Standards Scotland might also consider refocusing its partner engagement efforts in three directions, reaching out to:
   - State, housing and voluntary sector organisations working with vulnerable individuals around issues such as homelessness, family support and addictions.
   - Voluntary sector organisations working with clients who are destitute, including groups such as foodbanks.
   - Health and housing providers, particularly those who work with people who have addiction issues, and/or may identify people who are destitute.

   With each of these sets of partners, work should focus on:
   - Spreading understanding of those who use moneylenders.
   - Supporting partners to improve their ability to open discussions on clients’ finances where appropriate.
   - Supporting them to make available publicity/communicate messages about how users of moneylenders might extricate themselves from the situation through sources of help available in their community.

4. Informal intelligence about moneylender activity is gathered by a variety of agencies in addition to Trading Standards Scotland. TSS should continue its efforts to access such information, and consider whether blanket or more targeted approaches to publicising services and mechanisms which can support escape from illegal moneylenders might work in areas where their activity has been identified, perhaps using social media platforms.
5. Although the research did not turn up direct evidence of this occurring, the possibility exists that illegal moneylending activity is being even better hidden these days as lenders shift recruitment online. Trading Standards Scotland should investigate further whether this has been happening through social media platforms.

6. Finally, over the last few years the issue of destitution, and concerns about the impact of welfare reform, particularly Universal Credit, have been the focus of much policy, political and campaigning activity, often linked.

Those working in this field should work to understand the interplay between destitution, welfare reform and moneylender use, and make use of the powerful stories of people who have used illegal moneylenders in their campaigning.
1. Introduction

In September 2017, Trading Standards Scotland commissioned Nick Hopkins Consulting, supported by Craigforth, to deliver a commission exploring the experiences of people using illegal moneylenders in Scotland, and those of the organisations working with them.

The consultants and Trading Standards Scotland identified ten questions that would be explored by the research:

1. The financial circumstances that trigger need for credit amongst the customers of illegal moneylenders.
2. The reasons why customers of illegal moneylenders use that source of credit, rather than others.
3. Customers’ experiences of accessing and repaying illegal moneylenders, and of enforcement of compliance with repayment terms.
4. The financial and psychological impact of using illegal moneylenders.
5. Customers’ experience of seeking/engaging with help and/or moving away from illegal moneylenders.
6. How customers have changed their behaviour to avoid future problems.
7. The financial and psychological impact of changing their behaviour.
8. Advice and other organisations’ experiences of reaching out to customers of illegal moneylenders.
9. Advice and other organisations’ experiences of supporting customers of illegal moneylenders.
10. Ways in which customers of illegal moneylenders can be engaged more effectively, and better alternatives provided.

This report seeks to answer these questions across five main sections:

- A review of the literature relating to moneylenders, and an exploration of what the current social and economic challenges facing those most likely to use moneylenders tells us about the potential prevalence of moneylender use.
- Reporting and discussion of the interviews carried out with users of illegal moneylenders.
- Reporting and discussion of the interviews carried out with organisations working with people using illegal moneylenders.
- Reflections on the research findings relating to engagement between people using moneylenders and organisations that might support them.
- More general conclusions on the questions set out above, and recommendations for future engagement.

The consultants would like to thank all those who took part in the research. They would particularly like to thank those people using money lenders or who had used money lenders who were prepared to speak to them about what were often distressing and stressful events. They hope they have managed to convey the power of their testimony within this report.
2. Methodology

The researchers have delivered the project through:
- A literature review.
- Interviews with users of illegal moneylenders.
- Interviews with professionals working with people using illegal moneylenders or supporting those working with them.
- A focus group with staff based at Trading Standards Scotland, the client for this research.

The literature review looked at four different sets of literature, which respectively:
- Focused directly on the use of illegal moneylenders.
- Touched on the issue of moneylender use.
- Explored socio economic changes affecting people in poverty/on low incomes, and the issue of destitution in the UK.
- Explored trends in the high cost credit market on which many people on low incomes depend.

12 interviews were carried out with users or potential users of illegal money lenders. This was a far smaller number than had originally been envisaged by the consultants, although the client had always been less sanguine about the prospect of successfully recruiting user participants.

Clients were recruited with the assistance of staff working in teams administering the Scottish Welfare Fund, and to a lesser extent by staff working for local authority advice teams. Two interviewees were recruited with the assistance of Scotcash CDFI, responding in one case to a request for participants on its Facebook page.

Of the 12 interviewees:
- 1 had self-referred, mistakenly believing the research related to legal but high cost lenders.
- 1 reported being affected by a brain injury, and did not appear to grasp the questions being asked of him, and was unable to communicate clearly enough to give feedback that was usable.
- 1 had ultimately decided not to use a moneylender, though they had gone so far as to meet with one. Her feedback, unlike that of the two interviewees mentioned above, still features in the report.

Extensive efforts were made to increase the number of people interviewed over a number of months. The consultants sought the assistance of their wide range of contacts in the advice field, met face to face with networks of advice organisations, circulated requests for interviewees through advice sector networks, and asked all of the professionals they interviewed if they could recruit on their behalf.

The reasons why these efforts did not bear more fruit, and what that might indicate about what is happening with people at risk of using moneylenders, are discussed in more detail in section 6 below.

The consultants are still confident that the interviews that they did manage to conduct are powerful enough to create an accurate and striking picture of the situations faced by people using illegal moneylenders.
Interviews with professionals working with people using illegal moneylenders or supporting those working with them were conducted as follows:

- 8 with the managers of frontline advice services.
- 3 with managers working with teams administering the Scottish Welfare Fund.
- 2 with national bodies supporting the advice sector.
- 1 with a social lender.

A focus group was also carried out with Trading Standards Scotland involving five members of staff with current or previous involvement in the illegal money lending team.

Shorter conversations were also held with a small number of other professionals, which largely focused on exploring the reasons they felt the moneylender use was not an issue impacting massively on their clients. Some of those approached by the consultants on the recommendation of the client did not engage, or did not engage beyond indicating by email that illegal moneylending was not an issue impacting on large numbers of their clients.

Interviewees were identified jointly between the consultants, using existing contacts, and Trading Standards Scotland.

The consultants did attempt to carry out an electronic survey of advice workers, distributed electronically through both Citizens Advice Scotland and Money Advice Scotland. The survey sought to explore the prevalence of the use of illegal money lending amongst their clients, the sources of information they had about such use, and their view on different explanations for low levels of engagement of people using moneylenders with the advice sector.

The response rate, despite reminder, was very low, and the survey yielded no usable results.
Section 3. Literature Review and Context

This section looks at:

- Existing literature on moneylenders and their customers.
- The economic climate impacting on people on low to middle incomes in the UK.
- The impact of welfare reform on those groups.
- The consequences of these trends on the incidence of severe poverty and destitution.
- The support available in Scotland to those facing destitution.
- Trends in the sub-prime credit market.

The aim of the first section is to establish a clear understanding of the size of the market for money lending as it was prior to the recession, and paint a clear picture of the population who may use moneylenders and key aspects of their financial behaviour, the communities in which they live and the modus operandi of moneylenders.

The remaining sections focus on setting out how the pressures operating on the people most likely to use moneylenders have developed over the last decade, and what that might mean for moneylender use.

Section 3.1: Existing Literature on Moneylenders and their Customers.

There is only a limited literature available on illegal moneylenders and their customers, with by far the most extensive discussion to be found in Anna Ellison and colleagues’ 2006 report ‘Illegal Money Lending in the UK’, and their evaluations of the DTI’s illegal money lending pilots set up in the mid 2000s.

Size of Market

Ellison et al provided an estimate of the size of the illegal money lending market in the UK in 2006, suggesting that it involved 168,000 households, and was worth around £120m; £40m in borrowing and £80m collected in interest. This was contrasted with the much larger legal home credit market, which saw £1.5bn lent to 2.3m people, and £1.9bn collected, including the repayment of the loan and interest. The 2010 interim evaluation of the illegal money lending pilots put the size of market at 310,000 individuals.

Ellison et al acknowledged the potential for undercounting resulting from people’s reluctance, due to fear, to admit to using moneylenders. They reported that some residents on the estates where they were working had been told by lenders not to talk to them; researchers were also threatened and followed. In the saturation surveys that were the basis of their research they found that people were twice as prepared to say that they knew people using moneylenders as to acknowledge it was happening amongst families and friends, twice as likely to report it within their social circle as within their household, and twice as likely within their household as personally.

The interim evaluations reported evidence that suggested that the credit crunch and recession might have generated increased demand for moneylenders, with 63% of moneylender users saying demand had grown because it has become more difficult to borrow from home credit and other lenders.

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The key driver for the use of illegal moneylenders was clear; an exclusion from access to other forms of credit. More than 7 out of 10 illegal moneylender customers in the saturation surveys reported being excluded from other forms of credit\(^5\). However, most people reported responding to credit exclusion by not borrowing or by finding additional money from other sources. Those who turned to illegal moneylenders did so as a last resort, though they may also have appreciated the speed and convenience with which they can access cash from them.

In international terms, it was suggested that relatively low levels of exclusion from the legal credit market mean that the UK has a lower level of illegal moneylender usage than countries such as France, Germany and Japan\(^6\).

**Alternative Sources of Credit and Cash**
Ellison et al stressed the importance of home credit as an alternative to illegal moneylender usage, characterising customers of illegal moneylenders as either; living in home credit excluded areas; being too high risk for home credit lenders; or having had problems repaying home credit in the past. Many of those who borrowed from moneylenders had exceeded even the forbearance of home credit providers\(^7\).

This relationship was evidenced in other ways:
- 53% of users of illegal moneylenders on disadvantaged estates reported using home credit in the past 12 months.
- 18% of home credit users on disadvantaged estates reported that they, or someone in their family have used an illegal lender.
- The highest incidence of problem debt reported by moneylender customers was home credit\(^8\).

The Social Fund was also reported to be important as a source of credit for illegal moneylender customers, although it was cash limited, access to payment was relatively slow and it lacked flexibility. Again, whilst only a small minority, 6%, of those reporting being rejected by the Social Fund went on to use illegal moneylenders; half those using moneylenders had used the Social Fund in the last 12 months.

**Demographics/ Socio Economic Characteristics of Customers.**
Ellison’s research set out some of the characteristics of the customers of moneylenders. Those characteristics were seen as broadly reflective of home credit customers, moneylender usage being most common amongst:
- Women.
- Those aged 30-40.
- Lone parents.
- People on low incomes.

There were differences, those using moneylenders are more financially excluded and had a greater felt need for credit than home credit users.

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\(^5\) Ellison, A et al 'Illegal Lending in the UK' PRFC/ Policis/ DTI, (2006)
\(^6\) Ellison, A ibid
\(^7\) Ellison, A ibid
\(^8\) Ellison, A ibid
The report further characterised illegal moneylender customers as being the most disadvantaged people living in the most disadvantaged communities.

In more detail, it identified people at risk of being credit excluded and using illegal moneylenders as being those who:

- Were living in long term poverty, and benefit dependent over the long term.
- Were less likely to move out of poverty.
- Had no-one working in the household.
- Were more likely to be on incapacity and disability benefits.
- Had mental health problems.
- May have been experiencing drug and alcohol problems.
- Were more likely to have chaotic lifestyles (about 3 in 10 of those who use moneylenders could be characterised as living chaotic lives)\(^9\).

Ellison et al also characterised the communities in which illegal moneylender customers lived as being the most excluded communities or micro communities; tight knit, inward looking and suspicious of or hostile to outsiders, where lenders were well known to residents. This pattern was seen most strongly in their Scottish research, 86% of Scottish respondents in the saturation surveys knew that moneylending was happening in their community.

The interim evaluation quantified the extent of money lending use amongst the broad groups at risk:

- 3% of the lowest income quintile.
- 5% of people on low incomes who had been refused credit in the last 12 months.
- 6% of residents on the most deprived 5% of estates.
- 8% of families on such estates.
- 9% of Social Fund users\(^10\).

**Reasons for Use of Moneylenders/ Routes into Moneylenders**

Moneylenders appeared to be largely used for the same reason as home credit, with the exception that they are sometimes used to finance drug and alcohol consumption.

The interim evaluation provided some statistical evidence on this:

- Four in ten loans were characterised as distress or emergency borrowing.
- Two in ten were loans for day to day living.
- Two in ten were loans for Christmas.
- One in ten was for major purposes in repairs\(^11\).

People found their way to moneylenders through their social networks, being referred by friends who are existing customers. Lenders operated in a way which was discreet, typically on a small scale, and very localised.

**Size and Cost of Loans**

Ellison found that the average size of loan was £100 to £500, though a pattern in Scotland of very small loan being taken out and repaid at the next pay day was also noted\(^12\).

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\(^12\) Ellison, A et al ‘Illegal Lending in the UK’ PRFC/ Policis/ DTI, (2006)
The research report discussed the typical cost and term of loans. Their finding was that lenders tended to present the cost of credit as being similar to that of home credit, in order to avoid putting customers off.

This was reflected by customers who expected on average a cost of £183 per £100 as against £165 per £100 for the Provident. In fact, customers ended up paying around £285 per £100, 3 times the cost of home credit\textsuperscript{13}.

**Moneylender Tactics**  
Ellison et al offered significant discussion of the tactics used by moneylenders to maintain their income stream, to keep regular payments coming in, with their ideal customer essentially trapped in a cycle and continuing to make payments to them over the medium to longer term.

Opacity was a major weapon for lenders, ensuring that customers were never really clear about how much they owe, how much they have repaid, and how much the credit was costing them. The focus of customers on the affordability of weekly payments rather than the total cost of credit was a significant facilitator of such tactics\textsuperscript{14}.

Lenders could also:
- Set the loan at an amount that felt affordable for the customer, at least initially.
- Avoid mentioning the term of a loan, instead focusing on weekly and total repayment.
- Level penalty charges for non payment or late payment, sometimes set at arbitrary amounts, to extend the term and inflate prices.
- Hold borrowers responsible for repayments when they had introduced friends and family.
- Offer people top ups and advances before existing loans were repaid, preventing people from keeping track of how many loans they had had.
- Offer people top ups as way of repaying what they owed.

Ultimately people often experienced the repayment of moneylender loans as an entrenched obligation within a household budget, a permanent feature of their finances.

Intimidation was also a feature of the modus operandi of many moneylenders. Even where customers who paid on time had reasonably cordial relationships with moneylenders, these were still often underpinned by a sense of threat. Customers could experience explicit threats, and actual use of violence, or could be aware of the reputations of the people with whom they were dealing.

There could be other elements of compulsion. Benefit books and cash cards could be taken as security, and people could be blackmailed into engagement in illegal activity. Women in particular could be forced into prostitution or to provide sex to lenders\textsuperscript{15}.

**Typology of Lenders**  
Ellison et al provided a typology of lenders, ranging on a spectrum from those who operated as quasi legal high cost lenders to those who were engaged in high level criminal activity including those with paramilitary connections.

\textsuperscript{13} Ellison, A et al ‘Illegal Lending in the UK’ PRFC/ Policis/ DTI, (2006)  
\textsuperscript{14} Ellison, A ibid  
\textsuperscript{15} Ellison, A ibid
They suggested that there were two types of quasi legal lender; women lending to their peers on a very small scale, relying on social pressure to get people to pay; and those who previously had credit licenses, those who never went for a credit license, and ex Provident employees, this group sometimes relying on a degree of coercion to ensure payment.

The largest group of other lenders was that of those using coercion to ensure a regular income stream from their customers. These lenders had a varying degree of engagement with other criminal activity, for some, money lending was ancillary to such activity; others did not have such and ran standalone ‘enterprises’. The latter could recycle money lending profits into legitimate activity; the former could be involved with dealing in counterfeit, smuggled or stolen goods, or the selling of drugs. Larger operations were more likely to have connections with criminal families16.

Section 3.2: Economic Climate for People on Low Incomes.
The economic climate faced by people on low to middle incomes, those most likely to use moneylenders, has been largely bleak for a decade or more as household incomes have been squeezed by a combination of:
- Stagnant wages falling behind inflation.
- The impact of welfare reform, which still has not been fully felt, is discussed in the next subsection.

The UK is still living with the consequences of the recession in the late 2000s, although conditions have been challenging for people on low to middle incomes since earlier in that decade. Flat lining/ stagnating incomes in the early part of that decade were followed by a dramatic fall post- recession, and then a slow recovery.

Labour Market Trends.
Employees, including public sector employees, a particularly significant proportion of the workforce in post industrial parts of Scotland, have experienced a six year pay squeeze from 2008 to 2014. Falling inflation eased that squeeze in 2015; its rise has initiated a further squeeze since. Pay growth in this recovery has been the worst for 150 years.

The consequences are that:
- Single people are on average earning lower incomes than they were in 2001/02.
- Single parents have seen a decade of stagnating incomes.
- Typical household incomes of young adults are below what they were in 2002/03.
- The incomes of those aged 35-44 are only just picking up.
- After housing costs average incomes in Scotland are still at pre crisis levels17.

The UK economy’s performance in terms of employment has been better than its performance in terms of wage growth, although post industrial areas in Scotland continue to experience endemic issues of worklessness, often associated with long term and chronic ill health.

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However, broadly positive performance can hide other shifts in the labour market with negative impacts on household income.

- There has been growth in agency jobs, with 800,000 employed in this way.
- There has been growth in zero hours contracts, with 900,000 people employed in this way.
- Part time employment remains high, with 8.5 million people in the UK working on part time contracts and underemployment, which arises when people in work want to increase their hours but are not able to do so, remains a concern.
- The incomes of the 4.5 million people who are self-employed have seen large falls followed by weak growth, and the category of self-employment continues to hide large numbers of people working within the ‘gig’ economy, with uncertain and insecure work and incomes, and little protection against income shocks.\(^\text{18}\)

**The Impact of Welfare Reform.**

The start of the current round of welfare reform can be dated back to 2008, with the introduction by the last Labour Government of Employment and Support Allowance to replace Incapacity Benefit. However, the changes with the biggest negative or potential negative impact in household incomes, driven by the perceived need to reduce public spending, date from the post 2010 coalition Government period.

Significant changes were made during the 2010-2015 Government, many of which are only now beginning to be fully implemented, or fully felt. A further £14bn worth of cuts to benefits were announced in the 2015 summer budget.

The changes have come in several forms:

- New benefits have been created, with existing claimants making the transition across, sometimes losing entitlement in the process; for example the introduction of PIP to replace DLA and, of particular significance over the next few years, the introduction of Universal Credit to replace a range of income related benefits and tax credits.
- Certain working age benefit rates have been frozen, allowing inflation to erode their value.
- Benefit entitlements have been ‘salami sliced’ with small changes in regulations having significant impacts on the incomes of those affected, for example the introduction of the Bedroom Tax.
- Control over some benefits has been devolved, council tax benefit and the Social Fund being handed to the Scottish Government, Welsh Assembly Government, and local authorities in England.
- The Scottish Government has also used some of its powers to mitigate the impact of some reforms.

The impacts of these changes can be quantified and projected forward. Recent analysis of the impact of the changes made by January 2018 concluded that in Scotland the lowest two deciles would see an average 8% fall in their incomes, by £900 and £1600 respectively, over the years between 2012 and 2022.\(^\text{19}\)

That analysis identified the biggest drivers of falling incomes as being the freeze in benefit rates, followed by changes to disability benefits, followed by reductions in UC rates. Further losses will be experienced by people as a result of rises in indirect

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taxation. There are some countervailing factors for those in work with gains resulting from changes to income tax and national insurance contributions and from the introduction of the National Living Wage (which may also drive up incomes amongst those earning slightly above that rate)\(^{20}\).

The impacts of changes do not fall evenly, being most severe for:
- Women.
- Households with children.
- Households with more disabled members.
- Households with more seriously disabled members.
- Parents on low incomes.
- People from BME communities.
- .
- People in the 35-44 age group.

Some of the losses are very large.
- Lone parents in the bottom quintile of household will lose one quarter of their net income on average.
- A disabled lone parent with one disabled child will lose 3/10 of their net income, 10,000 per year in cash terms.
- Couples with children will lose £3,000 per year\(^{21}\).

Many of these groups are those who are mostly likely to be at risk of borrowing from illegal moneylenders.

Table 1 sets out the increases in poverty in Scotland that will result from these changes:

<table>
<thead>
<tr>
<th></th>
<th>Numbers in Poverty 2012</th>
<th>Numbers in Poverty 2022</th>
<th>Percentage in Poverty 2012</th>
<th>Percentage in Poverty 2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Households</td>
<td>390K</td>
<td>410K</td>
<td>15.4%</td>
<td>16.8%</td>
</tr>
<tr>
<td>Children</td>
<td>240K</td>
<td>320K</td>
<td>25.1%</td>
<td>33.1%</td>
</tr>
<tr>
<td>Adults</td>
<td>670K</td>
<td>700K</td>
<td>16.1%</td>
<td>16.9%</td>
</tr>
</tbody>
</table>

In the UK:
- Child poverty will rise in lone parent households from 37% to 62%.
- There will be an increase in poverty amongst households with disabled children of 18.5%.
- There will be an increase in poverty for families with three or more children of 16.5%.
- There will be an increase in the numbers of people who are in work and poor\(^{22}\).

These increases will have an impact on household’s experience of debt, their ability to access credit and their ability to save:
- 40% of low to middle income families say they would like to save but cannot. In 2016 64% of low to middle income families had less than £1,500 in savings.
- 42% of low to middle income households are somewhat concerned by debt, 16% are very concerned.
- 39% of non-working households are somewhat concerned by debt, 17% are very concerned\(^{23}\).

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\(^{21}\) Portes J et al ibid

\(^{22}\) Portes J et al ibid

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**Section 3.3: Destitution and Severe Poverty in the UK**

Those at risk of using illegal moneylenders are the most disadvantaged. The literature suggests that moneylender use is also driven in part by the need to access cash to pay for household basics. Moneylender customers will therefore be largely drawn from the population of people who are destitute or in severe poverty.

Destitution can be defined as affecting people if:
- They or their children have lacked, due to lack of income, two or more of the following basic goods over the last month; shelter, food, heating, lighting, clothing/footwear appropriate to the weather, and basic toiletries.
- They have such a low income that they are unable to purchase these essentials for themselves or their children.

**Extent of Destitution**

Recent work by the Joseph Rowntree Foundation has enabled the quantification of levels of destitution in the UK for the first time. Their most recent report sets out a headline figure of 1.55m people experiencing destitution at some point in 2017\(^{24}\).

Beneath that headline figure:
- People experiencing destitution are spread across 785,000 households.
- There are 365,000 children and 1,190,000 adults experiencing destitution over the course of a year.
- In any one week, 132,000 households will be in touch with voluntary sector crisis provision or local welfare funds, comprising 184,000 people, including 41,000 children.
- 34% of those who are destitute lacked one or more essentials, counting as destitute on the grounds of low income alone, 22% lacked two, 18% lacked three, 15% lacked four, 12% lacked five or six.
- 68% of the population who are destitute are below the extremely low income line. 61% have an income of less than £70 a week.

Assuming that, based on its comparative levels of poverty, levels of destitution in Scotland reflect those elsewhere in the UK, this suggests:
- A headline figure of 127,000 Scottish residents experiencing destitution over the course of a year, impacting on 64,500 households, and including 30,000 children.
- In any given week 10,800 households in Scotland being in contact with voluntary sector crisis provision or local welfare funds.

**Who is at risk of destitution?**

The research identifies three different groups of people amongst the population experiencing destitution:
- The UK ‘other’ group, comprising 68% of that population, whose experience generally involves a long period of low income and the triggering of destitution by an external event.
- The UK complex needs group, comprising 15% of that population, where low incomes are compounded by a range of issues including drug and alcohol usage, mental health problems, domestic violence, engagement with the police, and homelessness.
- The migrant group, comprising 16% of that population, who have reduced or no

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\(^{21}\) Corlett A, Clarke S, Tomlinson D 'Resolution Foundation Living Standards Audit' Resolution Foundation (2017)

\(^{24}\) Fitzpatrick S et al 'Destitution in the UK 2018' Joseph Rowntree Foundation (2018)
access to the formal labour market and restricted or no benefit eligibility\textsuperscript{25}.

Table 3 sets out the make-up of the population who destitute and in severe population, set against the make-up of the whole population.

<table>
<thead>
<tr>
<th>Household Type</th>
<th>All</th>
<th>Destitution</th>
<th>Severe Poverty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single</td>
<td>14%</td>
<td>61%</td>
<td>29%</td>
</tr>
<tr>
<td>Single older</td>
<td>18%</td>
<td>3%</td>
<td>2%</td>
</tr>
<tr>
<td>Couple</td>
<td>31%</td>
<td>2%</td>
<td>9%</td>
</tr>
<tr>
<td>Lone Parent</td>
<td>6%</td>
<td>3%</td>
<td>29%</td>
</tr>
<tr>
<td>Couple family</td>
<td>18%</td>
<td>8%</td>
<td>23%</td>
</tr>
<tr>
<td>Multi adult</td>
<td>13%</td>
<td>25%</td>
<td>8%</td>
</tr>
</tbody>
</table>

Destitute people are much more likely to be single than the general population, and much more likely to be living in multi person households, which do include people living temporarily with strangers. They are much less likely to be older, in a couple or to have children.

Whilst single people are over-represented amongst those in severe poverty, the same is also true for households with children. The figures suggest that there are factors stopping severe poverty converting into destitution for households with children, or that some triggers for single households to end in destitution are not there for that group.

**Triggers for Destitution**

Destitution is generally an experience that arises out of severe poverty; it is not something that comes from nowhere. The benefit freeze, discussed above, is making a significant contribution to increasing the prevalence of severe poverty.

However, there are a number of particular drivers/ triggers for destitution itself:

- The sanctioning of JSA or UC claimants.
- Universal credit makes a range of other contributions to the problem:
  - People have to wait 6 weeks to receive UC.
  - Advances given to help claimants with this gap still have to be repaid, and not everyone gets them because of affordability issues.
  - The size of repayments can cut people’s ability to spend on essentials.
- Benefit overpayments, which are recoverable at source, particularly where people are repaying more than one overpayment.
- Chopping and changing benefits in itself creates vulnerability, with the lack of consistency of income making budgeting difficult.
- The transition from IB/ ESA to JSA/ JSA levels of UC.
- The increasing strictness of debt recovery policies from public sector organisations.
- In England, the withdrawal or shrinking of local welfare funds in some areas.

\textsuperscript{25} Fitzpatrick S et al ibid
There are a range of other triggers that might push people into destitution. Table 4 sets out the prevalence of some of these amongst two of the broad groups of destitute people.\footnote{Fitzpatrick S et al ‘Destitution in the UK 2018’ Joseph Rowntree Foundation (2018)}

<table>
<thead>
<tr>
<th></th>
<th>‘Mainstream’ Destitute</th>
<th>Complex Needs Destitute*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial/ debt</td>
<td>62%</td>
<td>57%</td>
</tr>
<tr>
<td>Health</td>
<td>42%</td>
<td>67%</td>
</tr>
<tr>
<td>Benefit Problems</td>
<td>40%</td>
<td>53%</td>
</tr>
<tr>
<td>Jobs/ pay</td>
<td>18%</td>
<td>27%</td>
</tr>
<tr>
<td>Drug/ alcohol</td>
<td>8%</td>
<td>75%</td>
</tr>
<tr>
<td>Eviction</td>
<td>7%</td>
<td>63%</td>
</tr>
<tr>
<td>None</td>
<td>16%</td>
<td>2%</td>
</tr>
</tbody>
</table>

The importance of negative financial events in the lives of both groups is clear, as is the importance of health problems. The complex needs group is much more likely to have experienced issues with drug or alcohol use, and to have experienced eviction.

**Sources of Support.**
Table 5 sets out the source of financial support to which people may turn when they find themselves destitute, support which may provide alternatives to the use of illegal moneylenders.

<table>
<thead>
<tr>
<th></th>
<th>‘Mainstream’ Destitute</th>
<th>Complex Needs Destitute</th>
</tr>
</thead>
<tbody>
<tr>
<td>Parents</td>
<td>21%</td>
<td>25%</td>
</tr>
<tr>
<td>Other relatives</td>
<td>18%</td>
<td>25%</td>
</tr>
<tr>
<td>Friends</td>
<td>19%</td>
<td>21%</td>
</tr>
<tr>
<td>Churches/ charities</td>
<td>6%</td>
<td>23%</td>
</tr>
<tr>
<td>Local welfare fund</td>
<td>7%</td>
<td>14%</td>
</tr>
<tr>
<td>Begging</td>
<td>2%</td>
<td>31%</td>
</tr>
<tr>
<td>Other sources</td>
<td>3%</td>
<td>20%</td>
</tr>
<tr>
<td>No sources</td>
<td>12%</td>
<td>21%</td>
</tr>
</tbody>
</table>

People might also seek ‘in kind’ support from others, food, clothing, perhaps even small household items. Table 6 sets out the use of such.

<table>
<thead>
<tr>
<th></th>
<th>‘Mainstream’ Destitute</th>
<th>Complex Needs Destitute</th>
</tr>
</thead>
<tbody>
<tr>
<td>Parents</td>
<td>34%</td>
<td>21%</td>
</tr>
<tr>
<td>Other relatives</td>
<td>15%</td>
<td>17%</td>
</tr>
<tr>
<td>Local welfare funds</td>
<td>5%</td>
<td>13%</td>
</tr>
<tr>
<td>Foodbanks</td>
<td>22%</td>
<td>30%</td>
</tr>
<tr>
<td>Charities/ Churches</td>
<td>7%</td>
<td>37%</td>
</tr>
<tr>
<td>Other sources</td>
<td>2%</td>
<td>17%</td>
</tr>
<tr>
<td>No in kind support</td>
<td>36%</td>
<td>23%</td>
</tr>
</tbody>
</table>

The importance of parents, other relatives and friends as sources of support is clear, including for people with complex needs, although it appears to be ‘not the done thing’ to get in-kind support off friends, and perhaps easier to ask other relatives for cash than food.

Similarly, the humanitarian and financial aid provided by churches and charities, and the support of foodbanks have a major role in supporting people to cope with or escape destitution.
It is also noticeable that large numbers of people with complex needs get support from ‘other’ sources, and that nearly one in three have been involved in begging.

The numbers of people seeking help from local welfare funds are relatively low; the major part of the statutory safety net designed to help destitute people and people in severe poverty appears to be underutilised, particularly by people whose lives are less subject to chaos.

Finally, there are significant minorities of people who seem to face destitution without getting financial help, or more commonly again, any ‘in kind’ help. There is either no alternative source of cash or in kind support that stands between them and the use of moneylenders, or they attempt to cope with destitution without accessing such.

**Section 3.4: Trends in the High Cost Credit Market.**

If the risk of use of moneylenders is in part a function of access to other forms of credit, trends in the legal high cost credit market may impact on that risk; a contraction of legal high cost lending might be expected to result in increased risk of people using illegal moneylenders,

The FCA has carried out detailed analysis of a number of the high cost credit markets over the years 2012-16 using credit reference agency data\(^{27}\).

Table 7 sets out trends in the number of customers in various types of high cost credit.

<table>
<thead>
<tr>
<th>Year</th>
<th>Catalogues</th>
<th>Retail Finance</th>
<th>High Cost Short Term Credit</th>
<th>Home Credit</th>
<th>Rent to Own</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>2.8m</td>
<td>1.8m</td>
<td>0.9m</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>2.7m</td>
<td>1.8m</td>
<td>1.7m</td>
<td>0.8m</td>
<td>200K</td>
</tr>
<tr>
<td>2014</td>
<td>2.0m</td>
<td>1.9m</td>
<td>1.2m</td>
<td>0.7m</td>
<td>200K</td>
</tr>
<tr>
<td>2015</td>
<td>1.8m</td>
<td>2.1m</td>
<td>0.7m</td>
<td>0.6m</td>
<td>200K</td>
</tr>
<tr>
<td>2016</td>
<td>1.9m</td>
<td>2.3m</td>
<td>0.8m</td>
<td>0.7m</td>
<td>200K</td>
</tr>
</tbody>
</table>

Table 8 sets out trends in the number of loan originations in in various types of high cost credit.

<table>
<thead>
<tr>
<th>Year</th>
<th>Catalogues</th>
<th>Retail Finance</th>
<th>High Cost Short Term Credit</th>
<th>Home Credit</th>
<th>Rent to Own</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>3.6m</td>
<td>2.0m</td>
<td>2.1m</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>3.4m</td>
<td>2.0m</td>
<td>10.3m</td>
<td>1.8m</td>
<td>0.8m</td>
</tr>
<tr>
<td>2014</td>
<td>2.5m</td>
<td>2.2m</td>
<td>5.3m</td>
<td>1.6m</td>
<td>0.8m</td>
</tr>
<tr>
<td>2015</td>
<td>2.3m</td>
<td>2.4m</td>
<td>3.3m</td>
<td>1.5m</td>
<td>0.7m</td>
</tr>
<tr>
<td>2016</td>
<td>2.5m</td>
<td>2.6m</td>
<td>3.6m</td>
<td>1.7m</td>
<td>0.6m</td>
</tr>
</tbody>
</table>

\(^{27}\) ‘High Cost Credit and Review of the High-Cost Short-Term Credit Price Cap’ Tech. Annexe 1 FCA (2017)
Table 9 sets out the average value of loans for each type of high cost credit.

<table>
<thead>
<tr>
<th>Year</th>
<th>Catalogues</th>
<th>Retail Finance</th>
<th>High Cost Short Term Credit</th>
<th>Home Credit</th>
<th>Rent to Own</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>£280</td>
<td>£1,770</td>
<td></td>
<td>£680</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>£280</td>
<td>£1,930</td>
<td>£240</td>
<td>£700</td>
<td>£1,120</td>
</tr>
<tr>
<td>2014</td>
<td>£310</td>
<td>£1,960</td>
<td>£240</td>
<td>£670</td>
<td>£1,190</td>
</tr>
<tr>
<td>2015</td>
<td>£320</td>
<td>£1,790</td>
<td>£260</td>
<td>£710</td>
<td>£1,130</td>
</tr>
<tr>
<td>2016</td>
<td>£320</td>
<td>£1,690</td>
<td>£290</td>
<td>£770</td>
<td>£1,090</td>
</tr>
</tbody>
</table>

Table 10 sets out the total market size for each type of high cost credit.

<table>
<thead>
<tr>
<th>Year</th>
<th>Catalogues</th>
<th>Retail Finance</th>
<th>High Cost Short Term Credit</th>
<th>Home Credit</th>
<th>Rent to Own</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>£1.0m</td>
<td>£3.6m</td>
<td></td>
<td>£1.4m</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>£0.9m</td>
<td>£3.9m</td>
<td>£2.5m</td>
<td>£1.2m</td>
<td>£0.9m</td>
</tr>
<tr>
<td>2014</td>
<td>£0.8m</td>
<td>£4.3m</td>
<td>£1.3m</td>
<td>£1.1m</td>
<td>£0.9m</td>
</tr>
<tr>
<td>2015</td>
<td>£0.7m</td>
<td>£4.4m</td>
<td>£0.8m</td>
<td>£1.1m</td>
<td>£0.9m</td>
</tr>
<tr>
<td>2016</td>
<td>£0.8m</td>
<td>£4.4m</td>
<td>£1.1m</td>
<td>£1.3m</td>
<td>£0.6m</td>
</tr>
</tbody>
</table>

The tables indicate the variety of types of high cost credit available in the UK, and some sense of the different sizes of loan issued, and the different uses to which they may be put.

It is clear that a number of the high cost credit markets have been contracting, both in terms of overall value and in terms of the number of customers and originations. Most notably, the high cost short term credit market, essentially that served by payday lenders has contracted by two thirds in terms of the number of loans made, and halved in terms of the number of people taking out such loans.

Significant contractions can also be seen in the markets for catalogue borrowing, home credit and rent to own. Only retail finance has shown consistent growth across the period.

The general pattern across markets has been for the contraction to be reversed slightly in 2016 compared with 2015. Whether this marks the start of a period of regrowth or is just market ‘noise’ remains to be seen.

If these contractions indicate changes in high cost lenders’ policies restricting access to their products, they may suggest likely increases in the use of moneylenders to meet ongoing demand for credit.

**Regulating Payday Lenders- Triggering Increased Moneylender Use?**

The Coalition Government introduced legislation which was intended to deal with some of the problems experienced by customers of payday lenders which had mushroomed in the previous few years.

Key changes in this legislation were:
- The introduction of a price cap which means that customers cannot be charged more than 100% of the original loan value in fees and interest.
- The introduction of a £15 cap on default fees and the capping of default fees at 0.8% per day.
• Restricting the use of continued payment authority.
• Limiting the number of times a loan could be rolled over.
• The placing of risk warnings on financial promotions.

One of the concerns about legislation introduced to deal with the problems with payday lenders was that people rejected by payday lenders would respond by seeking to borrow from illegal moneylenders, essentially reflecting concerns that the UK would become more like countries with less high cost credit, and more use of illegal credit.

The consequences of the changes to the payday lending market has been a radical contraction of the number of providers, and the radical contraction in the number of loans made set out in the previous section.

FCA research looking at the experiences and characteristics of those rejected for payday loans, those taking out payday loans and lapsed payday loan customers, suggests that these concerns have not been borne out.

Part of the reason for this may be that applicants rejected by payday lenders are not quite the same demographically and in terms of socio economic characteristics as those using home credit that are more likely to use illegal moneylenders.

Levels of financial exclusion/ poverty are lower amongst rejected payday lender applicants than home credit users:
• Whilst one in five is in real difficulties, a quarter has no issues.
• Over half said they could go more than a month if they lost their main source of income, 19% said they could go a month.
• Most of this group are therefore not at risk of destitution.
• 77% people get some money from work; only 20% are not working.
• Levels of debt may be higher, at a median of £1,200.
• Median income is likely to be higher at £15K (still well below the UK average.)
• There are also likely to be fewer child related pressures on the household budgets of the rejected group, 57% have no dependents28.

However, there will be some cross over, and there are some similarities, in the populations; the average age of those rejected is 33, and most are renting, whether from the private or social sectors.

Despite the differences, looking at how people rejected for payday lending responded to that rejection is suggestive of what the preferred responses to credit refusal from people on low incomes might be more generally.

Respondents to the FCA’s survey were asked about how they had/ would respond to being rejected by pay day lenders:
• 37% indicated that they had/ would take no action.
• 25% indicated that they would borrow/ had borrowed from an informal source.
• 15% indicated that they would borrow/ had borrowed from another formal source of borrowing.
• 13% indicated that they did not know how they would respond/ had responded in another way.
• 7% indicated that they would cut expenditure.
• 3% indicated that they would do something negative.
• 1% indicated that they would miss a bill29.

28 ‘High Cost Credit and Review of the High-Cost Short-Term Credit Price Cap’ FCA (2017)
Table 11 sets out more detailed information from the report on actual/ possible responses to rejection\textsuperscript{30}. 

<table>
<thead>
<tr>
<th>Action Taken/ Considered</th>
<th>Declined Payday Lender Applicants</th>
<th>Accepted Payday Lender Applicants</th>
<th>Former Payday Lender Users</th>
</tr>
</thead>
<tbody>
<tr>
<td>Approached/ borrowed from family</td>
<td>20%</td>
<td>23%</td>
<td>16%</td>
</tr>
<tr>
<td>New payday lender/ company or doorstep loan (Home Credit)</td>
<td>10%</td>
<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td>Approached/ borrowed from friends</td>
<td>7%</td>
<td>8%</td>
<td>5%</td>
</tr>
<tr>
<td>Other sources of borrowing</td>
<td>3%</td>
<td>3%</td>
<td>2%</td>
</tr>
<tr>
<td>Got in more debt/ struggled/ been in trouble</td>
<td>2%</td>
<td>4%</td>
<td>5%</td>
</tr>
<tr>
<td>Had to wait until wages/ benefits paid</td>
<td>3%</td>
<td>2%</td>
<td>1%</td>
</tr>
<tr>
<td>Cut back generally</td>
<td>2%</td>
<td>3%</td>
<td>-</td>
</tr>
<tr>
<td>Used savings I already had</td>
<td>1%</td>
<td>3%</td>
<td>5%</td>
</tr>
<tr>
<td>Sold something</td>
<td>1%</td>
<td>3%</td>
<td>-</td>
</tr>
<tr>
<td>Bank loan/ overdraft</td>
<td>1%</td>
<td>2%</td>
<td>3%</td>
</tr>
<tr>
<td>Requested more time to repay/ had an arrangement</td>
<td>2%</td>
<td>1%</td>
<td>4%</td>
</tr>
<tr>
<td>Unable to buy food/ cutback on food use/ used foodbank</td>
<td>1%</td>
<td>2%</td>
<td>3%</td>
</tr>
<tr>
<td>Late/ unable to pay bills</td>
<td>1%</td>
<td>2%</td>
<td>5%</td>
</tr>
<tr>
<td>Nothing- nowhere else to borrow from</td>
<td>18%</td>
<td>9%</td>
<td>10%</td>
</tr>
<tr>
<td>Nothing- went without/ gave up/ managed</td>
<td>17%</td>
<td>13%</td>
<td>12%</td>
</tr>
<tr>
<td>Nothing- emotional/ cried/ panicked stressed</td>
<td>1%</td>
<td>1%</td>
<td>2%</td>
</tr>
<tr>
<td>Nothing- everything was/ would have been fine</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>Don’t know/ can’t remember</td>
<td>3%</td>
<td>14%</td>
<td>20%</td>
</tr>
</tbody>
</table>

There is little sign here of people looking towards illegal moneylenders as an alternative source of money to payday lenders. The most striking aspects of the results are the reliance on family, and the reliance on coping without any loan.

This lack of evidence of a shift to borrowing from payday lenders is reflected in the report’s further exploration of the experiences of respondents who indicated that they had or would consider using informal lenders:

- Only 3% of those rejected by payday lenders, 6% of those accepted by payday lenders and 2% of lapsed payday lender customers indicated that the person they would borrow from informally was lending money regularly to make money.
- Only 7% of those rejected by payday lenders, 5% of those accepted by payday lenders and 8% of lapsed payday lender customers, indicated that the person to whom they would look for informal lending would be charging interest.
- Only 4% of those rejected by payday lenders feared violence from the person they would look to informally to borrow money if they were not able to pay.

\textsuperscript{29} ‘High Cost Credit and Review of the High-Cost Short-Term Credit Price Cap’ FCA (2017)

\textsuperscript{30} ‘High Cost Credit and Review of the High-Cost Short-Term Credit Price Cap’ Tech. Annexe 1 FCA (2017)
Section 3.5: Scottish Welfare Fund
The Scottish Government took over responsibility for the Social Fund in 2012. Local authorities administer the fund in accordance with regulation and guidance issued by Scottish ministers, and funded through the Scottish Government.

The benefits target many of those groups most likely to use moneylenders.
- Disabled people.
- People with mental health problems.
- Unemployed people.
- Older people.
- Care leavers.
- Homeless people.
- Ex offenders.
- Carers.

Broadly reflecting the structure of the Social Fund, the SWF has two elements; Crisis Grants to help meet expenses that have arisen as a result of an emergency or disaster in order to avoid serious damage or serious risk to the health or safety of the applicant or their family, and Community Care Grants which support people to live independently in the community, often to establish themselves living in the community, or to provide a safe and secure environment for their children.

Both elements, though particularly Crisis Grants, may be an alternative source of cash for people who would otherwise use moneylenders.

Only adults are entitled to awards, and applicants must be on a defined list of income related benefits. Claimants may only access 3 payments within a 12 month period, and awards cannot cover sanctions associated with Universal Credit (or Job Seekers Allowance/ Employment and Support Allowance).

Payment may be made either in cash, or in kind, for example through the direct provision of items requested, or in the form of vouchers or packages of goods. Claimants, whether successful or not, should be referred to other advice and advocacy organisations for additional support and advice including income maximisation/ benefits advice, money advice including budgeting, housing and employment advice and support.

In 2016/17, there were 229,920 applications to the Scottish Welfare Fund across Scotland, of which 67,480 were CCGs and 164,970 crisis grants.\(^{31}\)

Looking at CCGs:
- Of the 67,480 CCG applications 42,775 were accepted and 25,130 were rejected a 63% acceptance rate.
- Of the CCGs awarded, 14,580 were to help people stay in the community, 10,640 were for families facing exceptional pressure.
- CCGs were used to purchase/ provide carpet/ floor covering, bed, bedding, cooker, fridge freezer, washing machines, clothing and shoes.
- The majority of CCGs were made through the provision of goods.
- The most common reason for rejection of a CCG application was that the reasons for the application did not meet the criteria.
- There were 15,425 repeat applications and 5,960 repeat awards.
- Total spending on CCGs was £25.44m.

Looking at Crisis Grants:

- Of the 164,970 Crisis Grant applications, 116,830 were accepted, and 48,130 were rejected, a 71% acceptance rate.
- 68,005 of the applications made were because benefits/income had been spent, 34,455 were on the grounds of other emergencies, 18,715 were to meet unexpected expenditure.
- 87,315 Crisis Grants were used to purchase food, 75,295 to pay for heating, and 41,450 to pay for other living expenses.
- 56,400 Crisis Grants were paid in cash, 20,975 through payment into bank accounts, 12,975 through store vouchers, 6,650 through purchase cards.
- There were 102,230 repeat applications, and 61,405 repeat awards.
- The most common reasons for rejection of a crisis grant were; 13,125 because of the person’s application history, 11,940 because the reasons for the application didn’t meet the criteria, and 8,125 poverty rating insufficiently high.

Table 2 sets out the household types most likely to benefit from support from the Scottish Welfare Fund.

<table>
<thead>
<tr>
<th>Household Type</th>
<th>CCGs</th>
<th>Crisis Grants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single</td>
<td>53%</td>
<td>56%</td>
</tr>
<tr>
<td>Single parent</td>
<td>27%</td>
<td>20%</td>
</tr>
<tr>
<td>Couple</td>
<td>4%</td>
<td>5%</td>
</tr>
<tr>
<td>Couple with children</td>
<td>7%</td>
<td>8%</td>
</tr>
<tr>
<td>Other</td>
<td>6%</td>
<td>8%</td>
</tr>
<tr>
<td>Other with children</td>
<td>3%</td>
<td>3%</td>
</tr>
</tbody>
</table>

Section 3.6: Budgeting Loans

Budgeting loans were identified by Ellison as a key alternative source of credit relied upon by people who would otherwise use illegal moneylenders, and by many people who found themselves using illegal moneylenders.

Budgeting Loans remain administered centrally to people on qualifying benefits; Income Support, income related JSA, and Pension Credit. They are designed to help people on low incomes meet larger expenditures without having to pay interest, and are repaid direct from benefits over a period of a maximum of two years.

In 2016/17 in Scotland there were 131.3K applicants, 106.2K awards; an 81% success rate. The total value of loans made was over £410m32.

At a UK level:

- 19% went to unemployed people.
- 31.3% to disabled people.
- 35.3% to lone parents.
- 8.6% to others.
- 5.8% to pensioners.

464,000 awards, just under half, were made to single parents/couples with children, 428,000 were made to people who were single with no children, 55,000 to couples with no children. 38.1% of refusals were because of applicants’ outstanding debt, 28.8% were because applicants were not on a qualifying benefit, 30.4% were because applicants had not been on a qualifying benefit for 26 weeks.

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Section 4: The Experiences of Users of Illegal Moneylenders

This section explores the experiences of the users of illegal moneylenders who were interviewed by the researchers. All the names of the interviewees have been changed.

It looks in turn at:
- The financial pressures faced by interviewees.
- Alternative sources of help/loans.
- How they became aware of the moneylender they borrowed from.
- Their initial contact with them.
- The terms under which they had taken out loans.
- The methods used by moneylenders to enforce payment.
- The development of their borrowing/repayment pattern over time.
- The impact of using a moneylender over time.
- Their experience of exiting/not exiting from the situation.

Section 4.1: Financial Pressures.
Interviews explored the reasons why people had used moneylenders, and the pressures operating on them that had driven that demand.

Lacking money for household basics
Some interviewees had found themselves effectively destitute and unable to afford the household basics, in some cases being faced with an immediate crisis:

‘I had nothing in for tea’ (Claire, 35-44)

‘I borrowed the money because I had no food for my daughter, no electricity and no pet food. I’d have managed myself, but I couldn’t face having no food for my daughter. She’s 17 so she still relies on me.’ (Gemma, 35-44)

‘It was for living expenses, gas and electricity, things like that.’ (Andrew, 35-44)

The triggers for financial difficulties for the interviewees in this situation generally related to a loss of income resulting from a change in the benefit payments they received associated in some way with welfare reform.

Some had been affected by the transition to Universal Credit, leaving a previously manageable situation unmanageable:

‘I got transferred from ESA to Universal Credit. It was a really big drop in the cash I was getting and I just couldn’t cope…..I lost about £240 a month, my disability premium.

Before that, everything was OK, I had enough money…..I could cope with it.’ (Jordan, 16-24)

‘I’m on Universal Credit because I can’t work due to ill health. I’ve rheumatoid arthritis, anxiety and a nervous disorder. Some days I can’t go out, when I do I find ways that I can avoid bumping into people.

That [Universal Credit] is why I got into bother. I couldn’t afford to live. I had to borrow, when I went to the bank there was no money there....
I didn’t have any bother before Universal Credit, I’d get my ESA every fortnight and that would be sorted. They cut my money off in February 2017 and they didn’t tell me. I had no money going in at all…..They still don’t put money in when they are supposed to’ (Lisa, 35-44).

Sanctions had impacted on one interviewee, and appeared to have been used in a situation in which she was being asked to fulfil work related requirements when she was not capable of doing so:

‘The first time, I was sanctioned. I had almost nothing left in the house. I was meant to be on ESA because of my health, but they seemed to mess it up.’ (Samantha, 35-44)

One interviewee had suffered a loss of income after an assault had left him off work and reliant on Statutory Sick Pay, and without the opportunity to increase his income with additional hours:

‘I got attacked when I was walking someone home. I was off for six weeks, and was only getting SSP. I used to get £1,000 a month, 16 hours basic and then overtime, I was down to £292 on the sick pay.’ (Andrew, 35-44)

One of these interviewees was in an abusive relationship which was driving the financial difficulties that she faced:

‘I was in a terrible relationship. My partner, the kids’ father, never helped with the home and the kids and he had a drug problem. He was using draw all the time. He’d take the money off me and not give anything for me and the kids, then he’d go away and smoke it.’ (Claire, 35-44).

This abusive relationship had also impacted directly and starkly on ‘Claire’s’ attempt to access help from the state through the Scottish Welfare Fund:

‘I went for a crisis loan but I didn’t get one, they rejected me. I couldn’t tell them the whole story. My partner was with me and I thought I’d get another smack in the mouth if I said anything.’

**Financing addictions issues**

Interviewees had also borrowed to deal with substance misuse issues, though such borrowing tended to be historical:

‘The first time I borrowed was when I was 20, I was borrowing for that.’ (Andrew, 35-44).

One interviewee had in the past been struggling to manage the dual issues of an irregular income and substance misuse, despite living with his parents:

‘The first time was six years ago. I was self employed and living with my folks. The money wasn’t always regular, in a good month I’d get one to two thousand, but it wasn’t the same every month. It wasn’t always enough to live on, I couldn’t afford even the little money my parents asked from me, it didn’t always cover my dig money and my bills.

I was struggling with addiction too, I was spending on that. I was giving money to drug dealers on and off.’ (Paul, 25-34)
One interviewee had borrowed back in his twenties for less dramatic reasons, but had come to use moneylenders more recently, partly as a source of income to finance his drugs habit, and partly to cope with the changes to benefits he was receiving;

‘I used them back in the twenties for nights out, then I stopped until about 10 years ago. I’d settled down and didn’t need them any more….

My relationship broke down and I had mental health problems so I wasn’t working. I was on incapacity, but then with the changes they put me onto Job Seekers. My money stopped and I had nothing coming in. When it started again it was just too hard to manage. I couldn’t juggle payments, I fell behind, sometimes I had no gas or electric, sometimes no food….

I had a problem with addiction, my ex partner was using too so we were borrowing to feed the habit. More often though it was because I had no food, gas or electricity’ (Thomas, 45-54)

Managing one-off spending
Other people had sought out moneylenders because their financial situation had left them unable to afford particular expenditures, those mentioned by interviewees being Christmas presents:

‘I went to see the moneylender because I wanted to get presents for my daughters.’ (Conor, 35-44)

‘The second time was coming up to Christmas. I couldn’t get a loan from anywhere. I wanted to get a phone for my daughter on HP.’ (Samantha, 35-44)

Financial Pressures: Key Points:
- Many of the interviewees had found themselves destitute, facing the prospect of going hungry or without power.
- The loss of income due to a change in benefits was the major driver of such situations, including being sanctioned or transferring to Universal Credit.
- The loss of employment or pay, even if short term, could also act as a trigger.
- Situations could be compounded by difficult or abusive domestic situations.
- Some interviewees had, generally in the past, borrowed to finance addictions.
- Some borrowing from interviewees was to meet the cost of Christmas presents.
- Interviewees also reported borrowing from moneylenders for different reasons at different times of their life, or for more than one reason at once.

Section 4.2: Alternative Sources of Help/ Loans
Interviews explored people’s experiences of seeking help or loans from other sources before going to moneylenders, or the reasons why they had not, or had not been able to do so.

Help from friends and family.
Interviewees consistently spoke about the lack of availability of support from their family.

Some had approached their family for help:

‘I went to friends and family for cash, but they couldn’t help me. Maybe my gran could have but she died a couple of years ago.’ (Claire, 35-44)
Others had not, often because they felt that those they could have asked were no better placed financially than they were, or that they would not be able to provide the amount of help they needed:

‘I haven’t got friends or family that I could borrow from. They live some way away, and they’d be in the same sort of position as I am.’ (Jordan, 16-24)

‘I couldn’t borrow from friends or family, they were in the same situation as me. I’m not really a big borrower, I’ve never been that, I’d get help sometimes from my mum or sister, but things have got tougher over the years.’ (Samantha, 35-44)

In that second quote, there is a sense of the broader range of pressures impacting on people on low incomes referred to in the previous chapter.

Some were not in a position to borrow from their family as their relationship with them had broken down:

‘I don’t speak to my family, so I couldn’t ask them to help.’ (Gemma, 35-44)

‘When I was well and working and had a family they would help out with £10 here and there if I was stuck, but my relationship broke down and I fell out with them. My mum got dementia and I can’t ask my sisters.’ (Thomas, 45-54)

For some, it seemed that they wished to avoid embarrassment involved in asking friends or family for help:

‘I didn’t want to borrow from my friends, I didn’t want to ask them.’ (Paul, 25-34)

‘Most of my friends are in the same situation as me and I am too embarrassed to ask them.’ (Thomas, 45-54).

Others faced a combination of the absence of their usual family source of help, and other family members not being able to step in:

‘I usually get help from my brother, he sends me money, and sometimes he fills my fridge for me. But he’s working away down South for four months so he can’t help me. He’s really the only family I have that can help me, my mum is 53 and she has bipolar and early onset dementia.’ (Conor, 35-44)

**High cost credit**

Some interviewees had tried to access cash from sources of high cost credit.

Rejection from such high cost sources could come as a result of previous borrowing behaviour:

‘I couldn’t go to the Provident, I’ve a bad credit rating, I’ve borrowed from them and Moss’s in the past.’ (Jordan, 16-24)

‘I am blacklisted by Greenwoods and the Provvy. It’s to do with when I was on drugs and didn’t pay them properly.’ (Gemma, 35-44)
‘I couldn’t get money from the Provident. I hadn’t used them before but they checked my credit rating and said no.’ (Claire, 35-44)

Rejection could also be put down to the lack of such a track record:

‘I couldn’t get credit because I’ve never been a borrower. I was invisible because I’ve never borrowed. You have to get credit to get credit, that’s what the man in the 02 shop said.’ (Samantha, 35-44)

Two of the quotes above might refer to ‘credit rating’ as a manner of speech, or they might suggest a shift in policy from home credit providers formalising credit assessment as part of tightening the range of people to whom they will lend cash.

One interviewee was not able to access cash from high cost lenders because of his self employed status:

‘Payday lenders weren’t an option, I was self employed and I couldn’t give them proof of income.’ (Paul, 25-34)

Some interviewees had not so much been rejected by home credit providers as had taken the decision not to borrow from them on the grounds of cost, as well as past difficulties:

‘It’s years since I borrowed from the Provident. I don’t know whether I could have borrowed from them, but I don’t like borrowing from them, their rates are really high as well.’ (Lisa, 35-44).

‘I wouldn’t borrow from the Provident. They and Shop a Cheque are fucking extortionate.’ (Nicola, 35-44).

Others were not sure about how to access home credit loans, significant in the context of their knowing how they could access cash from moneylenders:

‘I did borrow from the Provident when I was 18. Perhaps I should have gone to see them. I didn’t really know where to go for them.’ (Conor, 35-44)

Others did not see home credit providers as being present in their communities:

‘The Provident aren’t really around.’ (Samantha, 35-44).

**Use of Scottish Welfare Fund**

Many of the interviewees had sought help from the Scottish Welfare Fund but had been unsuccessful in that application. This included some who had been recruited through teams administering the Scottish Welfare Fund:

‘I was told I should go to the council [to get a crisis grant], but they weren’t much help to be honest.’ (Jordan, 16-24)

‘I went to get a crisis loan, they knocked me back for that.’ (Andrew, 35-44).

‘I went for a crisis grant, but they couldn’t help me or they didn’t want to help, I’m not sure which.’ (Samantha, 35-44)
It was not clear whether these rejections were on the grounds of previous usage of the Fund within the previous year, or the judgement being taken by the Fund administrators that someone did not meet the criteria.

For one interviewee, their lack of access to the Fund was clearly reported as a result of their previous usage:

‘I’ve had crisis grants previously, but you can only get them 3 times a year.’
(Gemma, 35-44)

For others, the Scottish Welfare Fund played an important part in their being able to exit from their situation with the moneylender, something explored in more detail below.

**Using different lenders**
A number of interviewees had sought help/ a loan from a number of different sources. Perhaps the clearest example of this was ‘Nicola’, the interviewee who ultimately decided not to use a money lender, who revealed a complex situation including the loss of money borrowed from elsewhere leading her to the point of meeting with a moneylender to talk about a loan:

‘I usually go to Cash Converters. I got a £200 loan from them, £82 a fortnight to pay back, three instalments.

I’d been to them because I couldn’t sort out my electric. I’ve had issues with the electric that I can’t get sorted. They can’t seem to get that I’ve got a smart meter. I’ve used a lot of my minutes phoning them. I went to the Scottish Welfare Fund for help, but they only gave me £50, that wasn’t enough.

[after getting the Cash Converters loan] I went into town, I’d only bought tickets and juice. I lost the money, or perhaps it was stolen. The police wouldn’t believe what had happened. I had to register it with them but no success getting it back.

Everything happens to me, it comes in threes and fours.’

**Lower cost credit/ saving**
No interviewees saw saving or credit unions as a possible source of support, or mentioned them without prompting.

The interviewee below gave a strong sense of not being financially included more broadly in terms of accessing appropriate products/ using payment methods generally regarded as more convenient:

‘I don’t have enough money to save. I pay all my bills and council tax. I don’t pay by direct debit, I do it at the Post Office, I don’t want to get caught by bank charges.’ (Samantha, 35-44).
**Alternative Sources of Help/ Loans: Key Points:**

- Interviewees could not generally borrow from their family. Families may not be present, may not themselves have money to lend, or their relationship with the interviewees may be poor or non existent. Asking for help from families may also feel embarrassing.

- Interviewees had often not sought to borrow from mainstream high cost lenders due to previous problems with repayments, whilst others actively avoid them due to cost. Self employment was also reported as a barrier to accessing such credit.

- Some interviews were suggestive of a reduced presence of home credit providers within some Scottish communities.

- Many interviewees had sought support from the Scottish Welfare Fund, but had had their application rejected. The reasons for rejection were not always apparent from the interviewees themselves.

- Interviewees may borrow from a variety of sources concurrently.

- There is no sense that borrowers are financially included, or that savings or credit unions are realistic or understood options for interviewees.

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**Section 4.3: Knowing Who to Go to**

**Friends/ neighbours**

Some interviewees had heard about moneylenders from their neighbours or from friends or acquaintances:

- ‘One of my neighbours was using him [the moneylender] and said, ‘Why don’t you call him?’ (Claire, 35-44)

- ‘A friend gave me the name, someone I met in town I used to know. I was saying that I was finding money difficult, and they put me on to them.’ (Lisa, 35-44)

Lisa’ had used a second moneylender, but had paused before making contact with them using a number provided by a friend:

- ‘The second one, I’d had his number from a friend for a while.’

One interviewee had been told about the moneylender by a close friend/ partner who had still suggested that she should avoid using him:

- ‘It was [her friend] who told me about him, but he told me not to go.’ (Nicola, 35-44)

**Word of mouth/ tight knit communities**

Other interviewees reported that the people they had used were widely known in the community as operating as moneylenders:

- ‘It was word of mouth. Everyone sort of knows who they are in the community. People know who they are and that they can borrow from them.’ (Jordan, 16-24)

- ‘I know there is a moneylender round every corner, I’m not sure how, I just know.’ (Thomas, 45-54)
One interviewee captured that sense of people being ‘known’, and also the widespread understanding that moneylenders were involved in other illegal activity:

‘I knew who to go to. You just know who is doing things in the schemes. You just know who it is. You see them out and about. Most of them are dealing drugs as well.’ (Samantha, 35-44)

The feeling of being in a tight knit community where people know each other’s business was even more explicitly discussed by one interviewee. Significantly, that interviewee believed that the moneylender would also have been aware of him, and would have known who he was:

‘I just knew who he was. I just live in a normal sort of street. Everyone knows who he is. That’s just [town where the interviewee lived].

I’ve always known who he was, he’s probably known who I was too. There are a couple of people doing this up here.’ (Andrew, 35-44)

One interviewee painted a picture of a market for illegal credit that almost seemed to function in the same way as other markets, with word of mouth about the widely known moneylenders spreading news about those prepared to lend and the ‘special offers’ available to borrowers:

‘It’s like you are chatting with someone about there being a sale on for trainers, or a bargain at a local shop. That’s how easily and freely people speak about money lenders. Saying do you like my new trainers is the same as saying ‘did you hear such and such has a deal on for 3 pound to the tenner if you pay back in 7 days. If you ask anyone they will know someone who knows.’ (Thomas, 45-54)

In contrast, one interviewee reported that such community knowledge had passed her by, despite her own personal connection with the moneylender:

‘I knew the moneylender from my childhood. I was probably the only person in town who didn’t know that’s what he was doing.’ (Claire, 35-44)

**Borrowing from a personal friend**

One interviewee had borrowed from a personal friend. His feedback stood out as being far more positive about the experience, and about the service that moneylenders provide, and is explored in detail later in this section.

**Knowing Who to Go to: Key Points**

- Interviewees often find moneylenders through friends or neighbours.
- Others do so through their existing knowledge of who lends money within their tightknit community.
- Some interviewees report open discussion of moneylenders within communities, although this picture is not supported by others.
Section 4.4: Making Contact with Moneylenders

The actual processes reported of making contact with moneylenders were not complex, though one interviewee had a sense that he was checked out by the moneylender before the lender was prepared to engage with him:

‘You just phone them up. They find out who you are, and come round to see you with the cash..... I don’t know how they find out about you. Perhaps they ask around.’ (Jordan, 16-24)

One interviewee had actually had the moneylender he used brought to his flat by his friend, which had meant that he knew little about the person that he was borrowing from:

‘It was a friend who told me about the moneylender. It was my friend brought him to me, I didn’t know his name or where he lives.’ (Conor, 35-44).

That interviewee reported being relatively new to the area, which may have explained his lack of familiarity with those lending money locally.

Two interviewees had met the moneylender for the first time in a public place, in contrast to the majority of others who had met them in their homes. The second quoted below had placed this in the context of the identities of those doing moneylending being widely known in her community:

‘I met the guy in Tesco’s car park.’ (Nicola, 35-44)

‘You just go up to them in the street.’ (Samantha, 35-44).

Another had gone direct to the home of the moneylender:

‘I just went up to the door and told him the situation and that was it.’
(Andrew, 35-44)

‘Andrew’ was one of two interviewees to communicate a sense of the emotions they felt when engaging with the moneylender for the first time:

‘Even though we both knew what I was there for, it was still awkward.’

The other was an interviewee who had made contact with moneylenders in a number of different ways:

‘I can call them, or the few I know personally I can go to their door and ask for the cash, but that’s not generally something I would normally want to do. It’s mostly by phone. The lender comes to the house and drops off the cash, or sometimes you meet them in the street. It’s the same to pay back.’
(Thomas, 45-54)

‘Thomas’ was reasonably positive about the experience of engagement:

‘That part of the experience was fine, it was something I was used to and felt normal.’
There could be a stark contrast between the simplicity/matter of factness of contacting the moneylender and the long term consequences of doing so:

‘It was the worst thing I ever did. I just got the guy’s number and phoned him.’
(Claire, 35-44)

Making Contact with Moneylenders: Key Points
- The process of making contact with moneylenders does not appear complex, although it may involve some due diligence from the lender.
- Moneylenders may be met in users’ homes, on the street or in another public place, or in their own homes.
- Engaging with a moneylender may be an awkward experience, particularly where users are not used to doing so.
- Contacting a moneylender can feel like a small step that led to big problems.

Section 4.5: Size of Loan/ Terms of Payment

Size of loan and repayments
Some interviewees had only taken out small amounts:

‘The first time I borrowed it was £30, they said it was three pound for every ten, so I had to pay back £39 when I got my money in’ (Claire, 35-44)

Others had taken out larger amounts:

‘I borrowed £200. They said I had to give them £350 back in my payment, so it cost £150.’ (Jordan, 16-24)

‘I borrowed £200. I had to pay them £400 back. You pay twice as much’ (Andrew, 35-44)

‘The second time, I borrowed £300 with £50 in interest on top of every £100. They wanted the money back as soon as possible.’ (Samantha, 35-44)

One interviewee set out the terms of the loan in quite a complex fashion:

‘I borrowed £200, and was going to pay back £50, plus £5 for every £15’ (Lisa, 35-44).

The interviewee who had borrowed from a friend operating as a moneylender had taken out a loan of considerable size:

‘I borrowed about £2,000 the first time, paid back weekly over a couple of months. You’d usually pay £50 for every £100 you borrowed, so it was £3,000 back’ (Paul, 25-34)

Whatever the size of loan, the interest charged by lenders appeared to be broadly comparable.
Terms of payment
Most interviewees reported that lenders were clear from the start that failure to pay would result in the cost of the loan increasing, and quite dramatically so:

‘They said that if I didn’t pay, the cost of the loan would go up.’ (Jordan, 16-24)

‘You borrow a tenner, you pay them back twice as much. If you don’t, it’s £20 a day.’ (Andrew, 35-44)

‘I borrowed £100 the first time. They were looking for £50 when I paid them, and £50 in interest every time I couldn’t pay.’ (Samantha, 35-44)

The regular user of money lenders outlined in some detail his take on the small loans that he had been involved in using, and the conditions under which they were generally taken out, and is quoted at length below:

‘I’ve mostly borrowed £10 or £20 to be paid back in 7 days. The most I’ve ever borrowed was £50.

The small amounts are generally paid back in 7 days, though different ones have different rules. It’s generally £3 on every £10, pay back in 7. If you go over 7 days that doubles every day you don’t pay.

Most don’t want it in dribs and drabs, they want the full amount when you have it.’ (Thomas, 45-54)

‘Thomas’ appeared price conscious in his selection of moneylenders in a way that other borrowers had not been (though some did explicitly compare the cost of borrowing from moneylenders to that of borrowing from high cost but legal sources):

‘One time I borrowed from someone new, and I didn’t ask before borrowing. It was £5 for every £10. I ended up having to pay them £45. I never took money from them again.’

Feelings about loans
Interviewees discussed how they had felt about the terms on offer and the prospects of them repaying.

Some had initially been optimistic about their loan, or had felt the terms to be reasonable, including the first person quoted here who had set out the loan’s terms in a complex fashion:

‘It seemed very reasonable that first time.’ (Lisa, 35-44)

One of those interviewees had believed that their financial difficulties, triggered by a change to claiming Universal Credit, would be short term, and had therefore felt that they would be able to cope with the repayment terms:

‘I thought that it would be temporary thing, that Universal Credit would be scrapped, that it would just be a temporary thing’ (Jordan, 16-24)

The interviewee who had borrowed from a friend was positive about the terms under which he had done so, contrasting it with legal options:
‘I was very clear, and it felt reasonable. It felt a lot cheaper than the legal options and just quicker and easier. I didn’t have to give them payslips, or proof of earnings etc.’ (Paul, 25-34)

Other interviewees were clear from the start about the high cost of the credit they were taking out, but felt they had had no choice:

‘I knew it was robbery, you know what to expect. The Government weren’t going to help, if I’d had a needle sticking out of my arm they would have.’ (Andrew, 35-44).

One took a more mixed view about his extensive borrowing experience:

‘They are reasonable if you pay them back the next time, you can be in trouble if you go over that.’ (Thomas, 45-54)

Some interviewees reported being clear about the terms of repayment:

‘I felt I was very clear about repaying, and the financial consequences of not doing so’ (Jordan, 16-24)

‘Mostly people [lenders] are clear, but they can change the rules if you don’t pay.’ (Thomas, 45-54)

For others, this was not at all the case; the transaction with the lender seemed to have occurred in a hurry, driven by the immediacy of the offer of cash and the need they were experiencing:

‘The lender was right there in front of me, that second. He didn’t explain about interest or anything, he didn’t even say how much I would pay back. He just gave me the £200.’ (Conor, 35-44)

Another interviewee felt very much that she had been ‘played’ by a lender who had kept the terms of the loan he was offering opaque:

‘I borrowed £50 and said it would be a couple of weeks before I could pay it back. He agreed, but said the interest would be higher because I was taking longer than 3 days to pay back. When I arrived [to pay] I asked how much it would cost. He asked how much I had. When I told him I had £115, he said it would be much more than that as it had been 2 weeks….. He said I still owed £70 but interest would be charged on top of that as it was an outstanding amount. From £50 I think I will pay him about £250, maybe more.’ (Gemma, 35-44)

Size of Loan/ Terms of Payment: Key Points

- There was significant variation in the size of loans taken out by interviewees.
  - Some were for small amounts, as little as £20 or £30 to cover household necessities.
  - Others had borrowed larger amounts to replace what they hoped would be a temporary fall in income or to purchase Christmas presents.
  - One interviewee had borrowed around £2,000.
• Whatever the amount, interest charged was between £3 and £5 for every £10 borrowed with repayment expected within a very short period.
• Interviewees sometimes reported the terms of the loan simply, sometimes in a complex way.
• Few interviewees seem to have been price conscious in their ‘choice’ of lender.
• Interviewees were generally aware from the start that a failure to repay on time would leave them facing increased financial costs.
• Initial optimistic feelings from some interviewees about loans turned negative when difficulties repaying began to bite, and/or their need for credit turned out to be longer term than they had expected.
• Some interviews were clear from the start about the high cost of their borrowing.
• Others were not, and had experienced a hurried transaction with lenders, or felt that the lender had deliberately obscured the cost and terms of the loan.

Section 4.6: Enforcement of Payment

Harassment
The sense of being pursued and harassed by the money lender came through strongly from several interviewees.

The interviewee below conveyed a feeling of being watched, and the use of surveillance by moneylenders to identify when clients have money.

‘If you went to the Post Office, he’d be at your door and windows. He didn’t care if you had someone in. He put the pressure on that way.’ (Claire, 35-44)

Her feedback also suggests the importance of moneylenders being able to harass people for repayment within their homes, and an openness about their conduct of business that indicates a feeling of impunity on the part of the lender.

That pursuit of people in their own home, or threat of it, was noted by other interviewees:

‘They told me that you pay the money on the day or there will be someone at your door.’ (Andrew, 35-44)

Some lenders also appeared to be keenly aware of when interviewees had just received their benefits:

‘The benefits would come in and the next day he would be looking for payment.’ (Claire, 35-44)

‘The moneylender knew what day I get paid. He’d be there at the bank to collect from me. He must have been collecting from other people too.’ (Conor, 35-44)

The frequency of contact from the moneylender was also used to drive payment:

‘Even if I was out for an hour and half, the neighbours would say he had been at the door three times.’ (Claire, 35-44)
**Use of threats**

Explicit threats had been made to some interviewees:

“..."I wasn’t sure what he would do if I didn’t pay.....

He said I would be done in if I didn’t pay up. I knew it was possible...It was too intimidating not to pay, you felt you would not be seen again.... ‘

(Claire, 35-44).

'They told me if I didn’t pay, my legs would get broken and I’d get run out of the scheme. It was intimidating, I’m not from this scheme originally, I’m from [nearby small town]. I didn’t know who the money lender knows, I thought I’d better pay him rather than get chased out of the scheme.’ (Conor, 35-44)

One interviewee described in detail a sustained campaign of intimidation from a group of people with whom her moneylender associated, and whom she described as being a gang:

'It was a group of them I was dealing with. I suppose you could say they were a gang.

Things started going wrong when I was in hospital and couldn’t pay. I started getting threatened, they told my brother to pass the message on to me when I was in hospital....

I did think about not paying, but my brother was getting threatened too. I knew they would do something. They have put people’s windows in, and they have come through people’s doors. They have stabbed people. It’s what they do, These aren’t hollow threats, they are real. The people I am dealing with are serious.’ (Samantha, 35-44)

Moneylenders did not always have to make explicit threats to interviewees, their reputation, and/or uncertainty about their intentions and reputation had a significant impact in themselves, and would also back up any threats that were actually made:

‘They didn’t really threaten me, but I knew I would face the consequences if I didn’t pay.’ (Jordan, 16-24)

‘People were scared of this person, he has friends that are scary....’

(Claire, 35-44)

In some cases, interviewees were clear that the moneylender themselves would not be the direct enforcer of the debt:

‘He has other people to do that for him. He doesn’t come himself, he has other people to do that for him. They are scary folk, intimidating.’ (Andrew, 35-44)

The interviewee who had decided at the last minute not to use the money lender was clear that that decision had been made because of the intimidation that she feared would follow:

‘I decided not to do it, just because of all the crap. I’m a lassie by myself and I’m new to the area. You don’t know who people know and he was fucking scary.’ (Nicola, 35-44)
For ‘Nicola’ there had still been a degree of unpleasantness in her encounter with the moneylender:

‘I said I wasn’t borrowing anything and walked away. He said, You are wasting my fucking time, I told him he was wasting everyone’s fucking time.

He was creepy looking, that’s the only way I can describe it. He was possibly Turkish or Polish, a big, tough looking guy.’

**Control/ non reporting/ avoidance**

One interviewee talked very clearly in terms of the moneylender who she had used exerting control over a large number of people:

‘Once I borrowed, lots of other people came out of the woodwork and said they borrowed too. He seemed to have a grip over that part of town....

It was all single mothers, he’d be sitting in the van, waiting for them to come out. He’d be sitting with one of his pals trying to intimidate you.’ (Claire, 35-44)

That control extended to ‘Claire’ being too scared to report the situation she was facing to anyone:

‘I was too scared to speak to the police or anyone, you wouldn’t get away from him.’

Another interviewee had gone to the police about her situation, but had not progressed to make a complaint due to her concerns and, she reported, due to advice received from the police themselves:

‘I went to the Police, not officially, on an enquiry basis. I went in and said to them, What would happen to someone if they were having this happen to them?

I told them some names. The Police said it might be worse for me if they went round.....The Police would know who they are. They would be well known.’ (Samantha, 35-44)

People had tried avoidance tactics to get away from their moneylender, but these had not proved successful:

‘I tried to go to a different bank, but he came up and banged on the door.’ (Conor, 35-44).

For one interviewee, the harassment from her moneylender was at least part of the reason why she had decided to move house:

‘I moved home, partly because of him, and partly because of my ex partner’ (Claire, 35-44)

**Exception to the rule**

The one clear exception to the picture painted of threats and harassment was the interviewee who had borrowed from a friend, who also appeared sanguine even when talking about the violence used by some lenders:
‘I never worried about the consequences of not paying. He was a pal, he was never unreasonable with me...I’ve seen others struggle to pay, but the worst that will happen is that they will get roughed up a little or take a couple of punches.’ (Paul, 25-34)

That friendship had even led ‘Paul’ to protect the friend that had lent money to him:

‘I got in [drugs related] trouble with the police and knew they were watching me. I had to stop going to him [his friend] because I didn’t want to make the police aware of what he was doing.’

**Developing attitudes from moneylenders**

Interviewees also reported the attitude and behaviour of moneylenders developing over the course of their engagement with them:

‘They were short and assertive rather than really being aggressive. They were reasonable at the start, but it got a bit much later on. The first person got too much.

I got frightened. I knew that I had to have the money for them. They made it clear what would happen to me if I didn’t. They never said what things, but they know that you know who they are....’ (Lisa, 35-44).

‘Lisa’ also reported a mix of conduct from the second moneylender that she had borrowed from:

‘The second person got shouty, but when I told him that I was getting paid Universal Credit fortnightly, he gave me time to explain.’

**Enforcement of Payment: Key Points**

- Many interviewees had been subject to harassment and felt pursued by the moneylender through frequent or constant contact.
- Interviewees could feel watched and harassed in their own homes, the latter appearing to be a particular tactic of moneylenders.
- Pursuit for payment was typically experienced immediately after receipt of benefit payments.
- Moneylenders appear to have a sense of impunity and operate quite openly.
- Some interviewees had experienced threats, often of serious violence, setting out the consequences of not paying.
- Intimidation could take the form of a sustained campaign which might also target family members.
- Lenders’ membership of a gang, or criminal associations could reinforce threats, or make explicit threats unnecessary.
- Lenders may effectively exercise control over users, making them too scared to report their situation.
- Where an interviewee did report issues on an enquiry basis, police advice deterred her from pursuing further.
- Some interviewees had sought to physically avoid lenders, without success.
- Lenders’ attitudes could vary and develop over time in terms of the level of intimidation used.
Section 4.7: Development of Users’ Borrowing Behaviour Over Time

**Worsening/ ongoing situation**

Interviewees reported severe problems with repayment and/or the size of the payments they were making mounting up:

‘I ended up paying about £1,000 all in [having started with a loan of £200]. That’s what they said to me, it might be more.

I have been struggling to pay it back, I’ve been struggling for 6 months. Last month I had to give them £430. I’ve now paid back the original loan, but I’ve been left with nothing’ (Jordan, 16-24)

‘The first payment was just over £100….I gave them 3-4 JSA payments, you get £118.59 JSA. I think I’ve paid them £472 on a £200 loan. I hope that’s the end of it.’ (Conor, 35-44).

‘That £200 [her loan from the first moneylender] took me six months to pay off. I kept borrowing and borrowing and then eventually it got paid off.’ (Lisa, 35-44)

‘Lisa’ felt that her second experience of borrowing, from a different moneylender, hadn’t been as negative, and she had a clear plan for paying off:

‘The second one hasn’t been too bad. I borrowed £250 and I’ve paid off £350. I’m nearly done, I have £100 left to pay, I’ll do that in instalments- 4th May and whenever my money comes in after that’

One interviewee painted a picture of a slow but ultimately severe worsening of her borrowing position with the moneylender she was using from small beginnings, an initial loan of £30. This was driven initially by apparent forbearance from the lender, in retrospect seen by the interviewee as an entrapment tactic, later by her need for more credit:

‘I went to give him back the £39 I owed. He said to me, I can see you are struggling, I only need the £9, just give me the interest.

I was paying him £9 every week. Then I’d take a bit extra, £10 or £20. I ended up paying him £21 interest a week.

You would hit kids’ holidays and you’re only getting child tax credit and ESA so you’d end up borrowing more. In the end I was paying him back about £170 a week. The week I paid it all off, I gave him £700 in all.’ (Claire, 35-44)

Another interviewee also reported getting into a situation of making regular repayments, without being wholly clear about how much of her initial loan remained to be paid, payments which on reflection effectively seemed to just cover the interest she was being charged:

‘I kept paying them £50. I didn’t know at the start it was going to be like that. It just kept being the same. I was just paying the interest and the amount wasn’t going down, they weren’t taking it off the overall bill.

I paid them for a couple of months, I must have paid them a couple of hundred by the time I was finished….’ (Samantha, 35-44)
That interviewee had a similar experience the second time she had borrowed from a moneylender:

‘I’m still not free of it. I’m paying them fortnightly, they say I still owe them £200. I’ve already paid them £500.’ (Samantha, 35-44)

Other interviewees reported repeat borrowing without the experience becoming completely unmanageable, though they did feel their control over their financial situation had been significantly shaken:

‘I had to pay £400 the day I got paid. I’ve borrowed twice more, the first time I went back 2-3 days after [paying off their first loan].

It’s like you are paying with one hand and borrowing again with the other. I’ve pretty much managed to pay them off this time.’ (Andrew, 35-44)

The exceptions
Two interviewees reported no fear or issues arising in respect of repayment; ‘Paul’ who had borrowed from a friend, and ‘Thomas’ who had used moneylenders regularly for small amounts:

‘If I didn’t have money one week I’d just call him and roll the payment over, double next week. I never missed more than one or it would have been too much to pay the third week.’ (Paul, 25-34)

‘I never used that moneylender again [he felt the loan had been more expensive than usual] I only ever used when I was desperate and it was never high amounts, so generally I used them in a planned way. They helped me in the short term, I didn’t want to go without gas or electric.’ (Thomas, 45-54)

Development of Users’ Borrowing Behaviour Over Time: Key Points

- Interviewees typically struggled to repay their initial loan, or ended up taking out further loans, leaving them with real problems with the size of payments they had to make.
- Severe problems could start from small beginnings, with subtle tactics from moneylenders, for example seemingly offering generous forbearance, such as only repaying interest early on, leaving interviewees struggling.
- Interviewees were sometimes left making regular payments without being clear about how much of their loan remained to be paid.
- For one interviewee, long term moneylender use was closely managed and manageable, for others just about manageable only because it was short term.
Section 4.8: The Impact of Using an Illegal Moneylender

Psychological impact
For the majority of interviewees the experience of using a moneylender had been stressful, to the point for some of putting their mental health at risk.

People reported high levels of anxiety, driven both by the nature of their engagement with the money lender and the impact of borrowing on their overall financial situation:

‘It’s made me very anxious. I didn’t know what was going to happen. Life is stressful, very stressful. I never go out. I can’t afford a bus pass to go places.’ (Lisa, 35-44)

Fear and a deep sense of being harassed were commonly reported, with interviewees talking about not being able to live normal lives or engage in normal activities, and about feeling unsafe in their own home. For some interviewees, it appears that their lives had effectively been taken over by the issue of their loan:

‘I found the whole situation very frightening. Every time the doorbell rang or the phone went. I was really depressed, I didn’t want to answer the door, I didn’t want to go out and bump into him.

You get a sinking feeling in the pit of your stomach, you owe money to someone who isn’t nice. Every time the door went I had that feeling.’ (Claire, 35-44)

‘It’s getting to the stage that they have a hold on me. I’m scared to tell them that have had such and such from so they are paid off.’ (Samantha, 35-44)

Interviewees were often clear that their situation had exacerbated pre-existing problems with their mental health, or was compounding other life worries that they had.

‘It brought my anxiety and depression back. It really brought back it back. I’ve been worrying about my HepC test too.’ (Conor, 35-44).

‘I’ve hardly slept. I feel more anxious and worried than usual and now I’ve got no money to live on.’ (Gemma, 35-44)

Those interviewees were often dealing with the situation with their moneylender at the same time as other difficult life circumstances, sometimes leaving them feeling that their situation was as bad as they had ever experienced:

‘I really hope things get better. They can’t get any worse, that’s for sure. I went to the CAB recently to see if I could get help to pay for my mum’s funeral. She died in February and we haven’t got her buried yet. We haven’t got the money for that at the moment…..

I can’t get a funeral payment because I’m working, and my sister can’t get one because there is no date set yet, the funeral directors won’t set a date until we give them a £2,000 deposit. She will be lying there for a while. It’s like banging my head off a brick wall.’ (Andrew, 35-44).

For one interviewee, the stress of engagement had left her mental health, already poor and impacted on by an eating disorder, in tatters:
‘I wound up ill again, trying to avoid them. I wasn’t doing much, I’d lost weight because of them.....

When I was coming out of hospital, I couldn’t seem to get on my feet again, I felt pretty awful...’ (Samantha, 35-44)

**Impact changing over time**

One interviewee gave a strong sense of the way in which their feelings about the situation had developed over time, contrasting their initial feelings about the loan with the way they felt later on:

‘You are so desperate for money because you have to feed your kids. It’s such a relief to get that cash and get your shopping in.....

I felt really depressed, I was crying with it all the time.’ (Claire, 35-44)

**Impact/ feared impact on family members**

Interviewees had also been fearful of the potential for other family members to experience repercussions, or to get caught up in the situation:

‘I was scared of having my daughters over. I’ve been staying at their mum’s because of it. They are only seven and nine and I was scared of what would happen if the moneylender turned up whilst they were here.’ (Conor, 35-44)

‘I’m scared for my daughter if I don’t pay.’ (Samantha, 35-44)

‘I am worried that if I don’t pay him he may come to my home when my daughter is there.’ (Gemma, 35-44)

One reported the stress experienced by her father when he became aware of the situation:

‘He wasn’t able to sleep at night either. He was always worrying about something happening to me and the kids.’ (Claire, 35-44)

**The exceptions**

Again, two of the interviewees stood out as not being impacted negatively psychologically by their use of moneylenders.

‘Paul’, who had borrowed from his friend, felt that for him, the experience had been more positive than borrowing from mainstream lenders would have been, largely on practical grounds, though also in terms of the potential stresses involved:

‘If I missed a payment to a bank I could end up with a bad credit rating, they could take me to court, they would send me constant threatening letters, which would hit my mental health [the interviewee had acknowledged his mental health problems] and give me more worry, they could repossess my stuff, they could arrest my wages I need to live off.’

‘Thomas’ who had used moneylenders regularly felt that this use had been manageable psychologically, and preferable in terms of his self-respect to seeking other informal help:
‘I didn’t feel it was too stressful to go to a loan shark. I would have been embarrassed to go to friends or neighbours for money so lenders are easier. They make a good living out of it, so you can think of it like a service not like you are begging for help. The anxiety comes in if you aren’t able to pay it back.’ (Thomas, 45-54)

‘Thomas’ did, however, report a highly traumatic experience suffered by a friend as the result of engagement with a moneylender:

‘A friend of mine borrowed money years ago from someone who loaned out higher amounts. She was ill, in and out of hospital and was desperate. She was managing to pay the loan back but had to pay the interest fortnightly on top of the repayment and was struggling with it. They’d turn up at her door early in the morning and demand it. She ended up committing suicide.’

Financial impact
The primary discussion with interviewees in terms of the impact of their using moneylenders focused on the psychological impact of their experience. Interviewees also explicitly discussed the financial difficulties resulting from moneylender usage separately from those that had driven them to seek out moneylenders in the first place:

‘I’ve fallen behind on utilities payments.’ (Samantha, 35-44)

‘We are living with no money, everything is going to pay him off. We have no food at all and soon we will have no electric. I was so starving.’ (Gemma, 35-44)

The Impact of Using an Illegal Moneylender: Key Points
- Interviewees found using moneylenders stressful, to the extent of putting their mental health at risk.
- Interviewees reported high levels of anxiety because of both their engagement with the moneylender and their overall financial situation.
- Others found existing mental health problems or other life worries to be exacerbated, in one case to the point of hospitalisation.
- Interviewees were afraid of moneylenders, and felt very harassed, to the extent of not being able to live normal lives or feel safe in their home.
- For some interviewees, dealing with their loan had become the dominant issue in their life.
- Many interviewees were dealing with moneylenders at the same time as other very difficult, upsetting and stressful, life situations.
- The negative psychological impact of using moneylenders appears to intensify over time.
- Interviewees often feared the potential for family members, particularly children, to get caught up in their situation with a moneylender. Family members aware of the situation could experience significant stress themselves.
- Using moneylenders left some interviewees unable to afford household basics.
Section 4.9: Exiting the Situation
Interviews explored the experience of exiting from their engagement with moneylenders, or where they had not yet been able to do so, their experience of barriers to doing so.

Interviewees who had exited/ were near to exiting
Some interviewees had managed to exit their situation, or reported that they were on the point of doing so.

The amounts that people had had to pay in their final payment were often substantial; one interviewee reporting that it was £700.

'Cobbling together the cash'
Some appeared to have got together the cash by themselves:

'I managed to cobble the money together. I got no support from the council at all....

I went back to [the council] in April and told them that all my money was going to moneylenders and I said I needed help to survive. They didn’t help me, they said there were other places to go to get help, like foodbanks. They said I could go to my electricity supplier and get a top up.’ (Andrew, 35-44)

Others had been seeking to do what they could for themselves by taking opportunities to save:

'My daughter’s away at the moment, that means I can save some money....I hope I can scrape together the cash’ (Samantha, 35-44)

Family and friends
Family help and support had played a key role in this for some interviewees:

'My dad was there when he [the moneylender] came round. I hadn’t told him because we aren’t that close....I just broke down when I told him....

He wasn’t going to mess with the money lender. He said that I should just pay up and then we could see what we could do. He’s on benefits though so there wasn’t too much he could do. He did help though, he was so desperate to get this person away from his grandkids.’ (Claire, 35-44)

'My mum helps me with food and stuff’ (Samantha, 35-44)

Others acknowledged the help of close friends as they sought to pull together the money needed to pay off their debt:

'I’m just lucky that [his close friend] has been able to help me out.’ (Conor, 35-44)

Scottish Welfare Fund
The Scottish Welfare Fund had also helped interviewees, not by providing enough money to clear their debt, but by giving them breathing space to put aside money to go towards paying off their debt, by helping them survive whilst they had been paying off their debt, or by helping them to stay on their feet having paid their debt:
‘I went to the Crisis Grant people. They did help out, though I had already had a couple of grants, they found a way of getting money to me. They gave me £150 which meant that I could go out shopping. They did ask me if it was paid off, and I said yes.’ (Claire, 35-44)

‘The moneylender turned up and took all my money, I had to go to the Scottish Welfare Fund to live on, they gave me £80’ (Lisa, 35-44).

‘Hopefully I will get out of this. I managed to get a crisis grant. It wasn’t much money but I used some of it to pay them [the moneylender] and some of it for me’ (Samantha, 35-44)

**Help from foodbanks/ other charities**

Some interviewees had also used their local foodbank as part of the process of getting out of the situation:

‘I’ve been there [to the foodbank] a few times. The food isn’t much, but it means I have some spare money to pay off the moneylender.’ (Lisa, 35-44).

‘I’ve been going to the foodbank when they have stuff. They don’t always have stuff, it’s not their fault. It was the Job Centre that told me about them, and the Crisis Grant people too.’ (Conor, 35-44)

For one interviewee, the foodbank had been the location of his meeting with a local drug and alcohol project which had then referred him on further to a money advice project.

Others had been reluctant to access foodbanks, were unaware of how to do so, or faced geographical or other barriers to doing so:

‘I didn’t want to go to a foodbank.’ (Andrew, 35-44)

‘I don’t know how you get there.’ (Samantha, 35-44)

‘There’s no local foodbank. The nearest one is in [local large market town] and it’s £5 on the bus. If I had £5 I’d be able to eat so that doesn’t help. You need a referral for it, only people with support workers get that service.’ (Gemma, 35-44)

Other charities had been a source of help or referral:

‘I got help from the Salvation Army, and it was them that told me about the foodbank.’ (Lisa, 35-44).

**Support from advice projects**

Some interviewees were receiving support from advice services which appeared to be tailored to keeping them on the right path forward, and which they felt was making a difference:

‘I’ve been getting some help off the people at the council at the budgeting project. That’s been making a difference. I wanted to get things sorted out, it’s been slow but steady, it’s been a long time since I had money to spend without worrying about other debts....I just wanted to be away from it and living as normal life as possible.’ (Claire, 35-44)
Two of the interviewees who had been recruited through a council based money advice/budgeting project spoke in some details about the support they had received from this source, and the impact that it had had on them.

‘Paul’, who had borrowed money from a friend who was a moneylender, reported that:

‘I got some help through the money advisor, but I already felt more comfortable not having to repay loans out the amount of money I did previously.

The money advisor has helped with budgets and benefits etc as I struggle with my mental health so I’m not always able to work. I find it a great help as wouldn’t know where to start with what I am entitled to especially because I can work on and off.

I feel more comfortable financially then I did years ago. I can manage money better.’ (Paul, 25-34)

‘Thomas’, the regular user of moneylenders, reported that:

‘[the money advisor] helped me sort out my benefits and got my money changed back to monthly. She sorted out my rent arrears and set up an arrangement to pay back. I told her all about the moneylenders and my past addictions. (Thomas, 45-54)

‘Paul’ was clear that the process of his leaving the situation with a moneylender behind had been part of an overall process of getting control over his life:

‘I managed to get my addiction under control. That meant I was managing my money better because I didn’t have as much going out.’

Despite his general acceptance of the value of the service provided by moneylenders, he now appeared to be borrowing from more mainstream sources, and was both clear about how he would manage this, and the path he needed to follow. It is notable that he referenced Scotcash, a social lender aiming to serve those on low incomes as a route away from expensive credit, as a source of his current borrowing:

‘I still have to borrow money, but I now use legitimate lenders. Scotcash is the cheapest, I go to them when I need to. I don’t use them as often as I used to use moneylenders, and I don’t take out one loan on top of another’

Even in this context, ‘Paul’ still felt that moneylenders still had a place and value for some people:

‘Though I could borrow from my mum, she lives down South, so I prefer to go to moneylenders. They are a better option for a lot of people. Me included.’

‘Thomas’ was clear about the greater stability in his life, but was also clear that he would continue to use money lenders:
'When I decided to get clean and separate from my partner I wanted to get the rest of my life and my money sorted. I couldn’t have done it sooner, I was still using. The drug service has turned my life and money and my situation around. I would have struggled without them.

Now the first payment fortnightly pays the main bills, the second one is for food. Things are steadying, but I still have to use moneylenders sometimes. I had to use them last month because my first benefit payment of the month was paid out to the last penny and I would have no food for a week, so I borrowed a small amount short term but it was manageable. I am trying to put away £2 a week in savings so don’t need to use money lenders in the future but I still think it’s an easy option if I’m stuck.’

Others did not feel that advice services would have been able to help them when they were in the midst of dealing with money lenders, or to deal with the issues that were driving their reliance on moneylenders:

‘I don’t think Citizens Advice or money advice would have been able to help, I’d still need money to clear the debt.

I didn’t get any help from anyone like the CAB to get my Universal Credit sorted out. People said that I wouldn’t be able to sort it out.’ (Jordan, 16-24)

Other interviewees had in the past sought help with the issues driving their problems.

‘I got help from welfare rights when I came off ESA and went onto Universal Credit. They helped me fill in forms. I’ve not been back to them though…..’ (Lisa, 35-44)

It was notable that ‘Lisa’ was now trying to deal with some of the issues she faced by herself, whilst putting off dealing with others until later, finding the prospect of attempting to do so a step too far at the moment:

‘I’ve been contacting the DWP myself, making them send me my payments. They always have some sort of story about why I haven’t been paid.

I’m not getting PIP. I should be but I’m not. I won’t put in for it just now because of all the forms and stress. When things calm down, I will.’

Making a fresh start

There was commonly a sense from interviewees that they were looking to a fresh start financially and psychologically now their debt had been paid/ once their debt had been paid, and that they would not make the same mistake of borrowing from a moneylender in the future:

‘I hope this is the end of it. I’d rather do without gas and electricity than borrow from moneylenders again. I think I will get back control...It’s my daughter’s birthday in July, I will save for that.’ (Conor, 35-44).

Although it was clear that ‘Thomas’ was going to continue to use moneylenders, he also communicated this sense of a broader fresh start:
‘I am feeling more in control of life and health. I am looking forward more to the future. Rebuilding relationships with people and staying away from friends with addictions.’

That fresh start could be partial. Even where interviewees had dealt with their debt, they were sometimes still battling the psychological impact of doing so even whilst feeling that things were looking up for them:

‘I’m still dealing with this, I’ve still got anxiety and depression. I’m still recovering from it, though I am getting over it slowly and surely. I still get anxious, but I can now look forward to getting paid without him being at my door demanding I pay up.’ (Claire, 35-44)

Struggling to maintain exit from the situation/ not being able to exit from the situation

For some interviewees their engagement with moneylenders and its impact were very much ongoing, and they reported feeling that they had not escaped and possibly would not be able to escape it, being trapped in a situation they could not resolve, and feeling out of control and isolated:

‘It’s getting to the stage that they have a hold on me. I’m scared to tell them that they have had their money and it’s paid off.’ (Samantha, 35-44)

‘I will get money in this week but I don’t know if it will all need to go to the lender...

I feel out of control and I can’t manage with what I have coming in and what I have going out. It’s really affecting my mental health and I feel very alone….’ (Gemma, 35-44)

‘Samantha’s’ feelings veered from optimism to pessimism over the course of the interview, partly due to her reflecting on a change in behaviour from the lender:

‘Hopefully I will get out of this situation. I am feeling a lot better in myself and they’ve eased off the threats.’

Interviewees who had exited their situation were also fearful about whether they would be able to maintain their exit, and some were considering borrowing from a moneylender again:

‘I’ve paid back that first loan but I’ve been left with nothing. It’s difficult to know how to get out of a vicious circle. I really don’t know how I will manage it, I hope I can get out of it eventually.’ (Jordan, 16-24)

‘I’m trying to steer clear of the moneylender. I hope that will be possible. I don’t get paid to the end of May [a couple of weeks after the interview] so that will be difficult. It’s a vicious circle if I don’t manage, I’ve just got to keep on.’ (Andrew, 35-44)

For ‘Andrew’, the situation was made more problematic and complex because he was in work and renting a furnished flat from the council’s homelessness service:

‘I’ve got £4,000 of rent arrears. I’ve been in a furnished flat since October. It’s £180 a week. I owe my electric too. The homelessness office keep hassling me
about it. They are talking about getting a notice to evict me. But I’m already homeless, so what are they going to do? You can’t make people homeless who already are.’

One interviewee still in the midst of her difficulties was not sure about whether paying off her current debt would offer a real escape:

‘I don’t want to use that lender ever again, but I might need to, I don’t think I’ve got enough money coming in to juggle everything. I’m always paying off their debt and I’ve got nowhere else to turn.’ (Gemma, 35-44)

‘Gemma’ was hoping that engagement with a support worker that they had previously engaged with would help her:

‘I’ve got an appointment with my old drug worker to see if I can get referred to a mental health specialist. I hope that from there I’ll be able to get another referral to more help, I feel like I am really struggling. If I speak to a professional about it all, perhaps I’ll get some control over things again.’

**Exiting the Situation: Key Points**

- Some interviewees had exited their situation with a moneylender, or were on the point of doing so.
- Some had managed to get together the cash to pay off the lender themselves, taking opportunities to put aside the money whenever they could, others had received help from family or friends, often receiving money from them to pay for household basics, rather than directly to pay to the lender.
- The Scottish Welfare Fund had enabled some interviewees to put aside money to pay off lenders, or had helped them stay on their feet once they had done so. It had not, for any interviewee, provided enough money to completely pay off debts.
- Foodbanks and other charities had played a similar role, although not all interviewees were prepared or able to access such support.
- Foodbanks could also provide a route into other services.
- Some interviewees had engaged with advice projects which were focused on building their financial capability to avoid the use of moneylenders and other problems in the future, with generally, though not wholly, positive results.
- Other interviewees did not feel that advice projects were or could have been a help dealing with their moneylender, and had tried to resolve their broader financial problems themselves.
- Interviewees who had repaid their loan, or who were near to doing so, generally looked to a fresh start, financially and psychologically, including making a commitment not to engage with lenders again.
- Some interviewees faced an ongoing situation, feeling that they had not yet escaped from their moneylender, and often fearing that they would not.
- Others who had paid off their loan were fearful of being forced into borrowing again.
Section 5. Agency Experience/ Views

This section of the report looks in turn at:
- Interviewees’ perceptions of the demographics/ socio economic circumstances of the people that they serve.
- Interviewees’ perceptions of the financial pressures impacting on the people they serve.
- The experience of priority debt amongst the people they serve, and trends in priority versus consumer debt.
- The use of high cost credit by the people they serve.
- Informal borrowing from friends and family by the people they serve.
- Other sources of credit for the people they serve.
- Triggers for applicants/ clients seeking help.
- Developing relationships with clients.
- Client use of moneylenders.
- Explanations for non engagement with clients using moneylenders.
- Current practice towards moneylender customers.
- Current practice towards clients using moneylenders.
- Willingness to explore new ways of engaging with customers of moneylenders.

Section 5.1: Client Characteristics
There was some variation reported by interviewees in terms of the extent of vulnerability with which their clients presented.

Interviewees involved in the administration of the Scottish Welfare Fund had a strong sense of applicants living from hand to mouth. One further summarised those applying for assistance from the SWF as being 50% people in normal situations who have hit a problem, and 50% people who are in chaotic situations of some type. Another stressed the variety of the households presenting to them, making clear that the Scottish Welfare Fund does not just benefit single people and lone parents.

Discussion with a third sector lender focused on low income customers also explored issues around the demographic she served. She reported that her customer base was dominated by single people, with an even split between those living alone and single parents.

Some advice workers identified that the demographic using their service was changing:
- Some reported seeing more home owners seeking advice in the context of a growth in mortgage issues, although others felt there had been a drop off in this trend due to the regulator demanding more forbearance from mortgage lenders.
- Others pointed to a growth in the importance of the private rented sector as a tenure being matched by a growth in the number of clients coming from that sector.

Section 5.2: Financial Pressures on Clients
Interviewees regularly homed in on Universal Credit as driving a significant amount of the financial pressure on clients.

One interviewee managing the delivery of the Scottish Welfare Fund identified the introduction of Universal Credit as driving up the number of applications for support that his team was dealing with, although he felt the introduction of a more generous system of advances had recently eased things.
There were notable differences amongst Scottish Welfare Fund staff working in areas where Universal Credit was yet to roll out, one of whom reported that it was not clear that pressure on applicants had grown significantly over the last couple of years, another who felt that even the partial introduction of Universal Credit had impacted on some of their applicants, with single claimants facing real difficulties. Both these interviewees expected such problems to get worse, suggesting that in advance of full service introduction, the full impact has not yet been felt.

Interviewees explored in more detail the particular aspects of Universal Credit that were creating challenges for their clients/applicants.

The delay in first payment is seen as causing real problems. In the words of one housing association based money advice officer:

‘People are simply behind from the off’.

The same officer suggested that even where clients were aware in advance of this potential difficulty, they could find it really difficult to survive, and find themselves at genuine risk of eviction. People in these circumstances could find themselves borrowing just to keep their heads above water.

Some clients were reported as struggling to cope with the monthly payment aspect of Universal Credit. People who were managing reasonably when paid on a weekly or fortnightly basis were reported to be struggling now that the time between payments has been extended. For people with chaotic lifestyles in particular, this is seen as a huge culture shock. It appeared that at the time of the research, the potential to get Universal Credit paid fortnightly, set out within the ‘Scottish flexibilities’, negotiated by the Scottish Government was not having an observable impact.

Other interviewees identified the conversion of hardship payments into loans as leaving people short of money when the loan repayments were deducted from their future UC payments, leaving people with debts some way into the future. Where these deductions are taken concurrently with other deductions in respect of budgeting loans, council tax arrears, overpayment repayments, people can be left with very little to live on.

Interviewees welcomed the opportunity for people to continue to have their rent paid direct to their landlord under Universal Credit. However, it was pointed out that this does not happen in the first month of payment even where people want it set up, leaving people at risk of going into rent arrears at that point. The temptation not to pay the rent in that first month and to spend the money elsewhere is described as ‘huge’.

**Section 5.3: Debts**

**Priority debts**

Interviewees picked up specific issues relating to priority debts, in particular rent, council tax and utilities bills, and their relative risk of impacting on particular groups of people.

One adviser identified that people moving in and out of work were particularly likely to find themselves in priority debt, with another making the same point and tying it to the seasonality of work in the part of rural Scotland her organisation serves, and the presence of large numbers of zero hours care work jobs in the area.
Other advisers identified clients particularly vulnerable to priority debt as being; those who are longer term unemployed, those on sickness benefits, those in late middle age with kids or with grown up kids, and those who have recently experienced job loss. Adults with teenage children were identified as another group facing financial pressure with people in their household eating like adults, needing adult clothes, and wanting consumer electronics, without necessarily bringing in any extra income.

Advisers were clear that irrational or excessive spending was rarely a trigger for priority debt or debt in general, with most problems being caused by external events impacting on individuals.

**Priority versus consumer debt - different trends**

Citizens Advice Scotland discussed the client statistics they shared, which indicated a very significant fall in the number of clients facing consumer debt issues. There had been a 40% fall over the last couple of years in terms of people with issues relating to overdrafts, personal loans and credit cards.

In contrast, they reported an increase in priority debts amongst clients; with rises in council tax, rent and utilities debts, although this rise was not enough to balance the fall in consumer debt issues and overall numbers of debt clients had fallen.

Their view of the explanation of these patterns was that households, particularly single person households and households in part time work, were under significant financial pressure, causing issues with their payment of priority debts, whilst changes in the credit market had reduced the availability of consumer credit to people on low incomes, meaning they had less opportunity to get into problem debt.

**Section 5.4: Use of High Cost Credit**

Interviewees observed clients borrowing from, and client/applicant/customer debt owed to, a wide variety of higher cost/sub prime lenders.

It was suggested (backed up by statistics provided by the CAS interviewee) that sub prime debts remained less common amongst clients than priority debts, and debts to mainstream lenders, for example on credit cards.

Interviewees suggested that significant debts to such lenders were often owed by people who were out of work across the longer term, where they had borrowed to survive, or had been living just a little bit above the level that they could afford, particularly in terms of meeting occasional larger costs such as the purchase of Christmas presents.

**Home credit/ The Provident**

Home credit, usually referred to as The Provident by interviewees was reported as often being prominent amongst sub prime/high cost lenders being used by clients.

The extent of this usage was qualified in a number of different ways by interviewees.

- Some interviewees felt that there was less use of home credit than there had been, and observed something of a switch to rent to own lenders such as Brighthouse.
- Others linked declining use of home credit to the switch to online lenders or payday lenders from younger customers, and suggested that the Provident had taken a conscious decision to withdraw from some communities.
- One adviser suggested that the home credit debt that her clients were dealing with was often historic rather than current.
Others described the Provident as ‘still’ being there, implying perhaps that it had become less important as a source of credit, and suggested that there could be considerable variation between areas in terms of patterns of use of home credit. One adviser reported that in Dundee there was a clear preference for using Brighthouse to pay for furniture.

However:

- Others had seen no decline in the use of home credit amongst older clients, for whom this traditional type of loan was reported as being still attractive.
- Other interviewees noted home credit as being particularly embedded in certain communities, in her case within a number of ex mining villages just outside the main town in the area.

One adviser suggested that clients often did not regard home credit loans as being a debt, but as being a form of expenditure.

Advisers reported that home credit providers were seen as relatively easy/reasonable to deal with as a creditor.

Rent to Own
Brighthouse was commonly mentioned as a specific lender to whom clients owed money, something picked up both by advice workers and by people involved with delivery of the Scottish Welfare Fund. It was suggested that Brighthouse was the preferred source of credit to purchase bigger household items such as TVs or white goods, although some still noted that Provident was used for that purpose. Some money advisers did suggest that the number of people using Brighthouse had recently fallen.

Payday lenders
Clients were reported as borrowing from payday lenders. However, many interviewees felt that the number of clients/applicants presenting with debts to payday lenders had fallen back, in the words of one; ‘Payday lenders were a big thing for a while’, or was not as large as might be thought.

This falling back was seen as a consequence of the changes in legislation, and caused many payday lenders to withdraw from the market. One adviser had observed a recent tick up in the extent of the use of payday lenders, but suggested that this was less problematic in the context of changes in the legislation.

The third sector lender interviewed had observed a shift in relation to the previous borrowing behaviour of her customers who had used pay day lenders, and in the behaviour of those lenders. She suggested that fewer people were taking out actual payday loans, but payday lenders had not necessarily completely left the high cost market, shifting instead to the provision of slightly longer term loans of perhaps 3-4 months. She described this as a blurring of the boundaries between payday loans and other loans, and as a move into the market area previously occupied by the Provident and other Home Credit providers.

Online Loans
A number of advice workers had observed an increase in people, particularly young people, getting online loans, or responding to TV advertisements for products such as consolidation loans. There is nothing illegal about these loans, although they are high cost.
For many young people using online companies such as ‘Sunny’ and ‘Caboot’ it was suggested that the attraction is not only that they offer quick access to cash, but that they also offer anonymity, with no one from the lender knowing your business, and no one from the lender at your front door. One adviser suggested that people did not necessarily take out such loans because they had no other sources of credit available to them, but because products like consolidation loans make intuitive sense to them, even though the small print can cause problems.

For advisers, and perhaps for clients themselves, the lack of paperwork associated with such online loans could be an issue.

Catalogues
Catalogues were frequently mentioned as a source of debt for clients, and as being used across all age groups. Money is often owed to large companies such as Littlewoods.

Catalogues were seen by one adviser as sometimes being quite ‘loose’ in terms of the arrangements between the borrower and lender/agent, and as a consequence being quite tricky to deal with.

Other sources of high cost credit
One other new source of credit was mentioned; guarantor debt. This is seen as challenging where the person for whom the loan is taken out defaults. There can be significant amounts involved, there are issues around bankruptcy and personal relationships can be put under real strain because guarantors are generally friends or family.

There was little mention of pawn broking in the interviews, or of stores like Cash Converters. Where the use of the latter was observed, it was suggested that it was most commonly men that were customers.

Section 5.5: Informal Borrowing
Borrowing from families and friends was commonly observed, both by advice staff and by those administering the Scottish Welfare Fund. CAS reported recent research which had identified significant prevalence amongst clients of borrowing from friends and family.

Borrowing of this type was generally observed to be of small amounts, described by one interviewee as not being a matter of extravagance, but of borrowing for household basics; food, gas and electricity. Scottish Welfare Fund staff reported seeing applicants who had borrowed a hundred pounds from friends and family to pay for food, gas and electricity and as having nothing left once they had done so. Some advisers reported similar amounts of up to £200 being borrowed, for similar purposes. Others also reported smaller amounts being borrowed, £10 or £20 a time, which were intended to be paid back at the next pay day.

It was suggested that borrowing from family members could still be problematic:
- Repayment would still be expected, with one interviewee suggesting that parents were more demanding than grandparents that repayment was made.
- Borrowing from family members can be a real source of tension and embarrassment when people are not able to repay loans as agreed.
- Where people do borrow from friends and family, it was suggested by one adviser that they tend to see this as a priority versus other debts, a judgement that adviser agreed with, on the grounds both that their relationships might be
seen to be placed at stake by such loans, and that those lending could not always afford the cost of forbearance.

- Some clients were reported to have exhausted the willingness of their families to lend to them, and in some cases this exhaustion had led to a break down in their relationships with their families, which in turn had left them socially isolated.
- Long term reliance on family and friends could stem from issues with benefit payment, and could lead to that exhaustion. In the words of one money advice worker: ‘If you are still without benefits after three, four or five months, you’ve probably used up those reservoirs of goodwill.’

One of the interviewees administering the Scottish Welfare Fund observed that there was sometimes a reluctance from applicants to talk about borrowing from their family, people might be concerned that they would not be successful in a SWF application if they acknowledged that their friends and family were able to help them.

One adviser suggested that they had come across occasional instances of elder abuse, when younger members of families were taking ‘loans’ from older members which they would not, or did not intend to, repay.

Section 5.6: Other Sources of Loans
Some clients were described as being on such low incomes that even loans and lenders specifically designed to assist them/committed to assisting them such as Scotcash and the ‘Wee Glasgow loan’ were not fully affordable.

Budgeting loans were mentioned by interviewees as a source of potential borrowing for clients, but problems were identified in terms of them not being accessible to all when needed, with many clients already having exhausted their opportunity to borrow from this source. One adviser identified the two main options for those wishing to purchase larger items as being budgeting loans and Brighthouse.

Section 5.7: Client Triggers for Seeking Help
Interviews explored the triggers for clients seeking help from them, and the point in the development of their problems at which they would typically seek help.

Advice Workers
One interviewee identified two types of client who would seek direct help with debt; the first would be people with a small debt, which was, for whatever reason, really worrying them. The second would be people with large debts, perhaps as high as £15,000, who had buried their head in the sand for a long time rather than deal with them.

Other interviewees confirmed the second half of this picture in particular, suggesting that people would come and see their organisation as a last resort, perhaps after using any savings to bridge any debts that they have, and that it was rare to see someone coming to them for debt advice with less than £10,000 of debt. These interviewees felt that part of the explanation for this was that general awareness of the services offered by the advice sector was still poor.

This does not mean that advice organisations only see people with high levels of debt that are effectively out of control, but that those with smaller levels of debt are often identified as part of a more holistic look at the issues they face, having initially presented with issues such as benefit problems.
Sometimes the trigger for clients seeking help with debts is not the client making a decision to look for support, but the advice organisation reaching out to clients, through the establishment of referral relationships with partners, including those working with specific groups at risk of debt, or through delivering outreach surgeries in community locations, including those run by such partners.

The interviewee working for an RSL received referrals from colleagues as a matter of course at the start of a tenancy, and when tenants begin to run up rent arrears and experience other problems.

One of the advice organisations interviewed was involved in a slightly different type of advice provision, focusing on building financial capability. Her experience was that many clients sought financial capability help at the point at which their major issues had been resolved, and they needed assistance to move on.

Scottish Welfare Fund Staff
Interviewees working on the administration of the Scottish Welfare Fund were clear that they were the last resort for clients who have no money left for household basics; food, gas and electricity.

They reported a significant amount of effort to raise awareness of the Fund with those who might need it, even in one area including a TV ad.

There was a degree of disagreement about the extent of success of this work. The number of self referrals was seen by interviewees as testament to at least some penetration of the message that support was available, and interviewees had established extensive referral networks involving partner agencies, but whilst one interviewee was confident that they could reach anyone in need, another remained surprised and concerned by what she perceived as a lack of awareness of the Fund. She felt that there was perhaps a preference not to push awareness too hard locally, as a means of controlling demand.

Section 5.8: Relationship with Clients/ Service Offer.
Interviews explored with organisations how they developed their relationship with their clients, and the service that they offered to those clients.

Advice Workers
The consistent theme from advice organisations was that they built a relationship with clients that allowed them to disclose fully the range of issues impacting on them. It was seen as essential to take a person centred approach to engagement, particularly when dealing with vulnerable clients such as those with learning disabilities or mental health problems.

However, some interviewees noted that it could take a long time for clients to open up to them about the extent of the problems that they are facing, and some reported on the very late stage at which some revelations might be made.

One organisation provides a number of appointments to clients at which a range of different issues are covered. For them, a last appointment at which a client made a revelation was a regular occurrence, with clients using the wrapping up of engagement to talk about issues that they had kept hidden previously. This can be something of a challenge for advisers to deal with effectively, and can very much change the dynamic of conversations between client and adviser.
One interviewee was involved in the delivery of regular financial inclusion inputs to groups in local mining villages. This had allowed her to develop relationships with clients over a number of years, meaning that they were able to speak to her with great honesty about the issues they were facing, both in their personal lives and in terms of their finances, and were prepared to speak to her as soon as issues became apparent to them.

Advisers reported that clients could be very open about the range of problems they were facing. One interviewee referred to her staff regularly dealing with safeguarding issues, with clients talking about suicide, self harm and mental health issues, to an extent that they had not expected when they set up the project.

Interviewees did report sometimes feeling that there are still things that they are not being told when their engagement finishes.

One of the practical actions backing up the development of relationships was specifically mentioned by a number of interviewees, the keeping of spending diaries by clients, facilitating the identification of where money is going on debt repayments and other areas.

One interviewee working for an RSL provided an insight into why people don’t always engage with services. Her role involves offering engagement to all tenants at an early point in their tenancy. Some do not engage because they feel that they are already coping reasonably with any financial challenges that they face, whilst for others with potentially higher levels of problems, their preference is to continue engaging with any support workers that they have in place. For this group, problems could arise in the future when those support workers are withdrawn.

**Scottish Welfare Fund**

There is clearly less time for interaction between Scottish Welfare Fund applicants and staff administering local schemes. However, the nature of the scheme requires as thorough an exploration of applicants’ financial circumstances as possible, with frontline staff required to establish in detail the reasons why applicants are in a situation in which they have no money and are facing a crisis situation.

One of the interviewees operated a system with a separation between telephonist staff and decision makers, the former tasked with providing sufficient information on applicants’ financial circumstances to allow the latter to make determinations. Part of this process also involves establishing whether or not clients are in debt. Others operated a system where the same staff took information from clients and made a determination on their case.

Whatever the nature of the system, staff will explore in detail clients’ expenditure, as well as their income, checking benefit income information against DWP records.

One interviewee gave a feel for the extent of effort involved, by relating their procedures when an applicant reports lost or stolen money. Staff will require applicants to get a crime report and will follow up such with the police where applicants report stolen money, they will also check bank statements to make sure that money claimed as lost or stolen was received prior to the incident. **Section 5.9: Engagement with Clients Using Moneylenders**

Some interviewees reported engaging with clients/applicants using moneylenders, others reported that such engagement was extremely rare or non existent.
Interviewees Reporting Clients Using Moneylenders

One of the Scottish Welfare Fund interviewees reported regularly engaging with applicants who owe money to illegal moneylenders applying either for the Scottish Welfare Fund or the Discretionary Housing Payments also managed by his team.

This interviewee described a situation in which there were peaks and troughs of applicants reporting moneylender use. In his view, this might be partly explained by successful applicants in receipt of awards to deal with moneylender usage telling friends and acquaintances about this, provoking them to do the same. Whilst this might suggest that moneylender use is over reported, his feeling was that this would be balanced by other applicants not reporting moneylender user, for fear of reprisals or on other grounds.

This interviewee also identified a pattern of increased reporting of moneylender use before and after Christmas, as people sought out moneylenders to finance presents that they would otherwise not be able to afford.

Those interviewees reporting moneylender use locally had different views on its prevalence in their area. One, who was still able to provide interviewees for the research, felt that there were not many moneylenders working locally. Another, responsible for the administration of the Scottish Welfare Fund, referred to picking up evidence for moneylenders being in operation through the grapevine, for example through discussion with colleagues working in homelessness services.

Other interviewees painted a picture of very intermittent engagement with customers of moneylenders. The social lender interviewed reported that in the early stages of that organisation’s existence there were customers who revealed that they had been using moneylenders, but that the numbers of those doing so had not been great, that they had only made these revelations reluctantly, and that those numbers had fallen. Recent research had revealed a higher prevalence of the use of illegal moneylenders amongst their clients than they had expected.

One advice organisation interviewee suggested that she had not seen a client using a moneylender for a long time, but discussed in some detail a past case in which she had, involving a debt being taken on to pay for a funeral.

Interviewees Reporting No Engagement with Clients Using Moneylenders

Other interviewees reported that they did not see clients who were using moneylenders at all. The extent of this could be quite striking.

- One interviewee reported reflecting on nearly twenty years of case work, and reviewing a couple of hundred cases in preparation for the interview, and not seeing moneylending raising its head as an issue.
- One interviewee talked about how people were prepared to talk about historic issues such as abuse, but did not talk about use of moneylenders even in historic terms.
- One interviewee running a Scottish Welfare Fund team reported that the issue just did not come up, despite asking specific questions of applicants, both generally and in support of recruitment for this research.
**Section 5.10: Reasons for Non/ Rare Engagement**

Discussion with interviewees not engaging with clients using moneylenders focused on the reasons why that might be the case.

**Clients not Revealing Use**

For some interviewees, their suspicion was that they did in fact have clients who were using moneylenders, but that there were enormous barriers to talking about such usage. One interviewee, who had spoken about the extent to which clients could and would make highly personal revelations over the course of engagement, for example about mental health and suicide attempts or suicidal thoughts, suggested that talking about using moneylenders was even more difficult than talking about some of those issues. One interviewee drew an analogy with drug debt, which they also felt people were deeply reluctant to discuss.

Interviewees felt that some moneylender customers would be frightened of the potential repercussions of revealing usage to advice agencies.

Other interviewees talked about there being a gap between what they might suspect was happening in a client or applicant’s life, and their ability to get the client to talk about it, or to evidence that this was happening.

Other interviewees were dubious that clients using moneylenders would not talk to them about the use of moneylenders if they were involved in such.

One referred to the range of issues and feelings about which clients were open with them, including issues such as domestic violence, and suggested that people able to be open about issues like that, where there might also be a fear of reprisal, would surely be able to be open about issues around money lending.

They reported they had had no sense from any clients that they were being bullied, harassed or threatened by any people they owed money to, and were confident in their ability to get to the bottom of whatever financial issues were occurring in someone’s life and that if someone were using moneylenders, they would be able to identify that.

**Hidden Amongst Other Borrowing**

Interviews explored whether or not people were borrowing from friends and family instead of going to moneylenders, and whether such borrowing might be hiding moneylender use, for example with people reporting borrowing from friends when they really mean they are borrowing from moneylenders.

Interviewees generally felt there was no sign of this. Loans from friends or family were reported as not being interest bearing and borrowing only seemed to be done from close friends.

One of the staff running a SWF team suggested that could be a reluctance from people to talk about getting help from friends/ family as they feared it would damage their chances of making a successful application for support. Of bigger concern for this interviewee in relation to family borrowing than the possibility of moneylending use, were occasional cases of abuse, and instances of people making applications on behalf of others.
Other interviewees were not so certain that borrowing was not being hidden, with some clients/ SWF applicants reported as referring to borrowing from unspecified people. They believed that there were not a lot of people doing this, and amounts of money involved were small, but it was possible that the observed behaviour was connected to moneylender use.

One interviewee reported that some clients would refer to borrowing from someone that they knew who wouldn’t be a friend or family member, but would be someone within the community. This issue would come up when they were trying to make arrangements for how much they had to pay creditors. The amounts involved would be small, perhaps a couple of hundred pounds, loans which they would have taken out because of shortfalls meeting their commitments.

There were patterns in terms of those using this type of loan, with those involved more likely to be under 30, this interviewee suggested that older people with children were seen as more likely to turn to their own parents.

These types of loans wouldn’t be talked about in terms of moneylenders or loan sharks. There had been no threats reported associated with this type of informal borrowing.

**Hidden in Client Budgets**

Interviews explored the possibility that moneylender usage was hiding in client budgets that did not add up properly.

Interviewees did report that they had clients who were in this situation, where the sum of their reported expenditure against their income should not have left them short of cash. They were sceptical that this was commonly an indication of moneylender usage, believing instead that this was more likely to be about clients not initially being fully honest about the amount they were spending on cigarettes or alcohol, or even not being fully aware of how much they were spending.

One interviewee reported that they did come across odd situations, bank statements with bits tippexed out for example, but they had no reason to believe these involved clients being involved with moneylenders, although it was possible that some illegal activity could be being hidden.

**Those Using Moneylenders Not Seeking Help**

A number of interviewees tended towards the belief that whilst moneylending was happening in their communities, they were not seeing those who were using them.

**Client Mix**

For some interviewees the explanation for this related to the social mix of clients coming to them. One interviewee felt that people at the ‘sharp end of destitution’ might not come to them, and were more likely to engage with other support workers in the community. Another reported ongoing challenges engaging with younger clients, referring to outreach work at their local Job Centre bringing them face to face with people who had otherwise never walked through their door.

Other interviewees worked for projects that challenged this explanation. One had worked for a project which targeted advice at people in the recovery community, people as vulnerable to financial issues and in need of support as any people it would be possible to identify. Despite his explicit asking of clients about use of illegal moneylenders, fewer than 3% of those clients had indicated that they had used moneylenders, with all of these indicating that contact was historic.
This explanation was also challenged by an interviewee with an overview of services nationally, who pointed out the range of innovative outreach projects with which the advice sector was involved, suggesting that it would be getting to many of those most in need.

**Other Reasons for not Seeking Help**

It was also suggested that moneylender customers might not seek help because they did not feel that the support that could be provided by the advice agency would be of any use to them, that the advice agency would not be able to resolve the issues they were facing. The analogy was drawn here between debt to moneylenders, and drug related debt, another area of debt that was rarely seen by the adviser concerned.

Interviewees also felt that customers of moneylenders might believe they were doing something wrong themselves, and might therefore be concerned about police involvement, or might more simply be nervous that the advice agency would refer the situation to the police and leave them under threat.

Less dramatically, it was suggested that moneylender customers might not seek help with their debt out of fear of losing access to a key line of credit if advisers interfered in any way with their relationship with the moneylender.

It was suggested by CAS that this was often the case with home credit, the use of which they believe is underreported, by people reliant on it who do not want to put their access to it at risk.

**Alternative Sources of Cash/ Support**

Some interviewees felt that people were now turning to other sources of credit rather than to moneylenders.

It was suggested that payday lender usage had reduced people’s need to borrow from moneylenders. Other interviewees felt that it was likely that access to online credit had drastically reduced the need for people to seek out moneylenders. For others, the strong preference from clients was still to turn to the Provident as a lender embedded within their community.

One interview spoke about the availability of other types of informal credit, for example the offer of ‘tick’ at local shops and pubs, where people would have access to small amounts of credit, and repaid out of a wish to avoid social stigma or to keep a line of credit open.

Other alternative explanations advanced for the lack of clients revealing use of moneylenders were advanced. These included the suggestion that clients actually had better access to support, both financially through the Scottish Welfare Fund, and practically, for example through the staff such as housing support workers, than they had previously.

**Alternative Sources of Support: Foodbanks.**

One of the biggest changes in terms of services available to those on the lowest incomes since the Bristol University report on the customers of illegal money lending has been the growth in the provision of foodbanks.
In discussion CAS reported that they made 8,000 referrals to foodbanks last year, suggesting that foodbanks could operate as a safety valve for the financial pressure that people are facing.

Other interviewees agreed, one suggesting that people didn’t really borrow to pay for food any more, unless from close friends and immediate family, because they knew that the foodbank was available.

Scottish Welfare Fund staff were clear that they were alongside foodbanks as places of last resort for people, but suggested that people would usually attend a foodbank before coming to them, rather than the other way round. The point was also made that there are people who will not use a foodbank, generally on the grounds of the stigma attached.

**Problematic Language?**
There was discussion with some interviewees about whether the use of terms like loan shark was problematic when trying to engage with people on the issue of moneylenders. There was some agreement that it was, as it had clear connotations of violence that were not always borne out by the experience of customers, and that referring to illegal or unregulated moneylenders might be more appropriate.

Interviewees suggested that some clients might be borrowing from unregulated lenders who were not involved in threatening them in any way.

**Moneylending Not Happening**
Some interviewees felt that money lending was just not happening to any major extent in the communities in which they worked.

One had used their engagement with a regular group of clients to raise the issue of moneylending in advance of their engagement with the consultant. Their clients had been clear in their feedback, that money lending was not happening locally, and had not been for a long time.

She felt that her relationship with clients mean that this testimony could be trusted. It also chimed with her own experience that the visible money lending that she had seen in operation in the past was no longer happening, there were no longer moneylenders hanging around outside job centres to collect repayments.

She felt that the pattern of affluence and disadvantage in her area, pockets of the latter in a largely well off area, and a Scottish Welfare Fund allocation that appeared to be sufficient to meet demand, meant that there would only be a very small market for moneylenders to operate in if they were to exist.

**Section 5.11: Current Practice towards Clients Using Moneylenders.**
Interviwees explored current practice from advice organisations towards customers of moneylenders, although this was more often a discussion about what they would do if they came across such customers.

**Reporting**
Some of the interviewees suggested that they would report any use of illegal moneylenders to Trading Standards Scotland. Others felt that they would pass on the information to the Police.

Interviewees were clear that they couldn’t force people to report use to anyone, which limited the amount of information they could share with the Police or Trading Standards Scotland. One interviewee described their policy as being to lay out
reporting options to clients/ customers, but to respect their decision in terms of taking things forward.

One interviewee described their first port of call when working with clients using a moneylender as being making contact with TSS, not to make a report without the permission of a client, but to let them know that moneylenders were operating in their area and to take their advice on proceeding further.

Others were clear that clients would be unlikely to engage if they saw there as being any possibility of lenders being reported affecting them.

Some interviewees indicated that they did not record use of illegal moneylenders as a separate issue as a matter of course.

**Practical Interventions with Clients**

Interviewees were agreed that there was a limited range of practical things that they could do for anyone who did identify themselves as using a moneylender.

They were clear that it would not be possible to negotiate with moneylenders, essentially removing one of money advisers’ key tools, in the same way as it is not possible to negotiate with a drug dealer to whom a client owed money. One interviewee also suggested that people who might approach an advice agency would not actually want a debt dealt with in a traditional way, but to have access to cash to get the debt repaid.

Interviewees were clear that on the grounds of client safety they would not recommend to a client that they ceased to repay a loan.

The focus of advisers would instead be on seeking to maximise income, including looking at the Scottish Welfare Fund, at budgeting loans and at charitable grants as means of paying off all or part of the loan. One interviewee felt that budgeting loans, for clients who do not already have one, might be a particularly appropriate source of help as the application process is not particularly onerous. Referrals to a foodbank were also seen as a way of creating space within tight household budgets to put money aside to repay debts.

Where such projects exist, advisers might also seek to link clients to money management/ financial capability projects with the aim of getting people’s money management in order again. Other interviewees discussed the potential for referral to projects dealing with aspects of chaotic behaviour such as drug or alcohol abuse, but concluded that for some clients, these would not be appropriate as they might not be ready to move to stop drinking/ taking drugs at this point.

**Scottish Welfare Fund Links**

There was also some discussion with some interviewees about links between the Scottish Welfare Fund and other services. One SWF team leader referred to making referrals of applicants to other services which were not always followed up by those referred, with people interested only in the receipt of the grant.

The interviewee working for a social lender felt that her links with the SWF team covering the main area that she serves were not necessarily as robust as she would like them to be, in particular in relation to people whose applications for the SWF were rejected and who might be in need of access to cash.
A number of interviewees were open to engaging more closely with Trading Standards Scotland to identify and engage with clients using illegal moneylenders.

Some felt that they could become more proactive in asking clients about whether they were using moneylenders, although they were sceptical about whether they would find many clients who were, and were concerned that such questioning should not be perceived as intrusive and therefore put people off, particularly if questions were asked at the start of engagement.

One interviewee talked around the possibility of targeting publicity for her advice service at areas where moneylenders were suspected to operate. She felt that this might have an impact, it was something she had considered doing when in a previous post, but that it would require resources, and that it was more than possible that significant extra demand would be generated for her service without necessarily identifying and engaging any clients using moneylenders.

The social lender interviewed was interested in exploring how she might take the message of her organisation’s loans as an alternative to illegal moneylenders, and as being a potential help to people in crisis, out to people in the communities where they live, in particular into the places like pubs, cafes and gyms where she believes illegal money lending might be happening. She believes that illegal money lending is based around face to face contact, and those, like her, charged with offering alternatives, need to consider how they can learn from that or match it.

Section 5.12: Meeting with Trading Standards Scotland
The researchers held a focus group with Trading Standards Scotland staff who were currently working or had worked on the issue of illegal moneylending. Discussion explored their understanding of the characteristics and experiences of users of moneylenders, issues around reporting use of money lenders, and the characteristics, behaviour and tactics of moneylenders.

User Characteristics and Experience
The focus group agreed that use of moneylenders was largely driven by people not being able to borrow from other sources, in particular Home Credit. It was also felt that the speed with which moneylenders could provide money was critical to some users, whilst others faced barriers to accessing forms of credit that required them to have literacy skills.

Users of moneylenders were seen as very likely to be highly vulnerable, with long term social exclusion issues around chaotic lifestyles, disability, addiction, abusive partners, homelessness and eviction. The experience of participants was that those using moneylenders were often part of the same extended vulnerable families.

This is not seen as the case for all users. Staff identified a number of niche moneylending markets where the clientele are less socially excluded, suggesting that illegal moneylending in BME communities often involves people on somewhat higher incomes, and that those borrowing illegally to finance gambling also typically have a higher income. Illegal lending has been identified within Chinese, South Asian, Thai, Nigerian, Czech and Filipino communities and has even taken place amongst nurses from outside of the UK within the NHS.

Participants believe that many users of moneylenders are not in contact with any public agency, and are certainly not in contact with advice agencies that could in theory help them deal with their situation. It is suggested that cuts to the safety net have increased the likelihood of people falling through cracks in the system, and needing to
use moneylenders, or reducing the likelihood of them seeking help. Some users may be actively avoiding public agencies where they fear that seeking help with their problems risks their children being removed from them.

Participants felt that users of moneylenders generally felt that they had a moral obligation to repay their borrowing. For many it was felt to be a non negotiable debt, and the first thing they have to pay. This can explain why many users do not see themselves as victims, they believe that they have taken on a debt, and are duty bound to pay it.

**Issues with Reporting**
The major reluctance of people to report using moneylenders was discussed.

This reluctance was seen as analogous to people’s reluctance to report drug dealing when they are using drugs. People are afraid of the potentially violent consequences of reporting, but also fear that if they report a moneylender they will lose a source of credit on which they may need to rely in future, seeing the lender as a necessary service for them. There is a degree of stigma involved, and people may also feel bound by their community’s code of not ‘grassing’.

The participants suggested concerns about loss of access to credit as one explanation of why they were receiving fewer referrals about moneylending despite the increased pressure on people on low incomes, i.e. that increasing desperation means increasing reluctance to put at risk a credit line.

Where reports are made to Trading Standards Scotland, staff feel they are more likely to come from concerned family members or members of the community. When users make a report, the use of violence by a lender is often the trigger. Even when violence is used, users may be very reluctant to report this to police.

**Perspective on Lenders**
Participants identified different types of lenders.

Many appear to follow a route from lower level criminal activity such as small time drug dealing into moneylending, perhaps because the latter is a safer way of life. The extent of connections with criminal gangs/ families is not always clear, though participants believed that moneylenders will have grown up alongside gang members and will operate with permission from those ‘controlling’ an area. Some moneylenders will also take over the moneylending business from another family member.

Others will have been involved in the mainstream high cost credit industry in the past, perhaps through being home credit agents, and will effectively be involved in parallel lending, providing paperwork etc. mimicking that of such high cost lenders.

Illegal moneylending is also seen by the staff as largely dependent on the geography and particular structure of social networks in post industrial parts of Scotland, where there are tightknit, insular or isolated communities. Lenders will often have grown up alongside and been known to users. However, TSS believes that moneylending takes place across Scotland.

The tactics of encouraging users to take top up loans and of obscuring the terms of a loan remain at the heart of the behaviour of moneylenders, participants reporting an instance of a user of a prosecuted lender taking 5 years to pay back a £40 loan.
Different tactics were noted to ensure and facilitate payment. Some moneylenders will use traditional methods, taking possession of POCAs for example, or hanging around post offices or banks from where their customers are withdrawing their money.

Others will be using electronic means, whether sending reminders/ harassing users or arranging appointments through texts, or accepting payment through Pay Pal or through smart phones. There may also be something of a shift happening in terms of users being recruited through social media.

There is a reluctance on the part of moneylenders to actually use violence, to do so risks being reported, and increases the risk of police involvement. Crucially it risks deterring the borrower from using them again, that being the essential aim of lenders, to keep users on the hook for the long term. There is a balance that lenders seek to strike between being able to make credible threats, following through where they deem it necessary, and frightening off existing customers.

Participants also reported instances of online illegal lending mimicking legal online lenders, in one case only identified by the forceful reaction of the lender when contacted by a money adviser to negotiate payment.

Sometimes tactics of lenders are particularly niche; one moneylender was reported to have targeted mothers of young children through the sale of toys.
Section 6: Reflections on the Recruitment Process and Engagement with Intermediaries: Where Are the Customers of Moneylenders?

As noted above, the process of recruitment of people using moneylenders for the research was much more difficult than the consultants had expected. For many of the organisations engaged with it is as if moneylending did not exist.

This would have been something of a surprise at any point, but at a time when many of the pressures on those on the lowest incomes are acute, it is even more so.

The rest of this section discusses a number of hypotheses which might explain this, which we unpick below.

Illegal Money Lending is not/ no longer an issue
It is possible that illegal money lending is just not happening any more in Scotland’s most disadvantaged communities, that there is no needle in the haystack to be found.

This is challenged by the experience of some of the agencies interviewed, and by the testimony of users of moneylenders.

However, it is possible that there have been declines in illegal moneylending, or at least visible moneylending, in some communities. There may be a particular geography to this. All the interviewees recruited lived in Central South West/West/Scotland. Organisations elsewhere, including in Dundee, Edinburgh and Stirling, generally pointed to very little moneylending taking place locally.

The number of people using money lenders is simply very small, and not growing/ not growing significantly
The number of people identified as using money lenders is very small. It is therefore more than possible that those customers can be well hidden, and even missed, when surveying broad populations.

Even given pressures on people on low incomes, most of those affected will not seek to borrow from moneylenders, or even borrow outside the family at all, but will try other ways to keep their head above water. It is therefore more than possible that the number of people using money lenders has not grown, or not as significantly as could have been feared.

People who would formerly have used money lenders/ who previously used high cost credit to meet basic needs are turning to foodbanks.
It is very possible that some people facing trouble putting food on the table or with household bills are now turning to foodbanks and other sources of charitable humanitarian and financial assistance rather than using moneylenders.

This need not necessitate engaging with other agencies, people may seek help direct from foodbanks (despite the voucher system under which many operate), or may only engage with such agencies for the purpose of accessing a foodbank voucher.
People who would formerly have used money lenders are now using other sources of high cost credit/ people rejected by a previously relied upon source of high cost credit are finding other such sources.
It is possible that previous/ potential money lender customers are now turning to other sources of high cost credit. This may include:

- Home credit.
- Online lenders moving out of the pay day market into slightly longer term loans.
- Pawnbrokers and Cash Convertors.
- Guarantor loans.
- Illegal online lenders.

The figures presented above on the constriction of credit to low income households has cast significant doubt on this hypothesis, in such circumstances it seems less likely that lenders will take risks lending to the most vulnerable, and the experiences of those using moneylenders suggest that many have been rejected by high cost credit providers.

However, the hypothesis cannot be dismissed:

- The numbers of people using illegal money lenders have only ever been small.
- The numbers of people affected by credit constriction and other changes which might leave them financially struggling and who would potentially respond by turning to illegal credit are also small.
- Small countervailing trends might therefore be easily hidden amongst broad trends in the credit market.
- Some of those using illegal moneylenders have self excluded from high cost credit, and might be able to access it if they wished.

Furthermore, the use of online illegal credit is very much under researched, and it is possible that some moneylenders have made the transition to online lending/recruitment, perhaps using platforms such as Facebook to engage customers.

Borrowing from illegal money lenders is hidden amongst borrowing from family and friends.
Friends and family are the first port of call for many people seeking access to cash. Advice staff are clear about the extent of borrowing within families, as are Scottish Welfare Fund staff. Where borrowing does occur between families and friends it does not involve charging interest, and where friends are borrowed from, they are almost always close friends.

Only one interviewee reported borrowing from a friend and repaying interest. There was no sign of people borrowing from neighbours who were actually money lenders.

Advice agencies are not engaging the most vulnerable clients most likely to use moneylenders
Some advice organisations feel that they don’t always engage with the most vulnerable, and are therefore possibly missing out on engaging with those using moneylenders.

However, there is a huge amount of work across Scotland targeting people who are vulnerable, for example people with mental health problems, people with addictions, people who have experienced homelessness or domestic violence, etc. Projects doing this are still not encountering large numbers of people using moneylenders. One of
those projects, funded by the TSS to engage directly with people using moneylenders in the recovery community, struggled to access people who were doing so.

Many of the people using moneylenders interviewed for this research are not in contact with public services, or are in contact with few public services. It seems very likely that some of the population using moneylenders are so excluded that they do not engage even with the intermediary organisations that are at heart of the outreach work described above, or do not respond to such outreach work because they do not believe or know anyone can help them deal with money lenders or any other aspect of their financial concerns.

Advice agencies are engaging with customers of moneylenders, but those clients hide their usage from them

There is evidence that this is happening. Previous research carried out by the consultant for Scotcash identified people using moneylenders who had not revealed this to the lender. Recent further research for Scotcash confirmed this pattern.

Advice organisations interviewed reported that some people have gaps in their income and expenditure which may defy explanation, or that some clients disengage when too holistic a look at their debts is taken.

There are obvious explanations for this behaviour.

- Clients may hide moneylender user because they wish to keep open a line of credit with a moneylender and don’t want anyone to interfere with that. It is suggested that this often happens in relation to home credit.
- Clients are too afraid to talk about their own use of moneylenders, or do not believe that there is anything that can be done about that aspect of their debts.

How widespread such behaviour is may be open to question. Reflecting the experience of many advice agencies, the consultants’ predominant professional experience of interviewing clients about money and personal issues is of general openness, even within the confines of a phone research interview when engagement is only for half an hour or less.

Advice agencies and the consultants find that clients will disclose a range of historic and current issues impacting on them, from domestic violence to suicide attempts, because they place real trust in the agencies (and therefore for the consultants who are working for them), often seeing advice staff seen as confidants.

If it is the case that some advice sector clients are using money lenders but not disclosing this, the barriers to sharing that information must be uniquely powerful for those people.
Section 7. Conclusions and Recommendations

As stated in the introduction, this report aims to consider ten questions relating to the use of illegal moneylenders in Scotland.

This section seeks to answer the first nine of those questions, set out again below, focusing on tenth as part of setting out a series of more general recommendations:

1. The financial circumstances that trigger need for credit amongst the customers of illegal moneylenders.
2. The reasons why customers of illegal moneylenders use that source of credit, rather than others.
3. Customers’ experiences of accessing and repaying illegal moneylenders, and of enforcement of compliance with repayment terms.
4. The financial and psychological impact of using illegal moneylenders.
5. Customers’ experience of seeking/engaging with help and/ or moving away from illegal moneylenders.
6. How customers have changed their behaviour to avoid future problems.
7. The financial and psychological impact of changing their behaviour.
8. Advice and other organisations’ experiences of reaching out to customers of illegal moneylenders.
9. Advice and other organisations’ experiences of supporting customers of illegal moneylenders.
10. Ways in which customers of illegal moneylenders can be engaged more effectively, and better alternatives provided.

The financial circumstances that trigger need for credit amongst the customers of illegal moneylenders.

The research strongly suggests that use of illegal moneylenders is driven in immediate terms by the following factors, sometimes singly, sometimes in concert:

- The experience of destitution, of not being able to afford food, most commonly, or to pay for gas and electricity.
- The collision of a desire to make a larger purchase, poverty and a lack of other credit options.
- Addiction.

Those affected by destitution:

- Have no other credit options or have exhausted such.
- May borrow very small amounts, as little as £30.
- Have often been placed in that situation by the impact of welfare reform, in particular by the impact of transitioning to Universal Credit, or benefit sanctions, or another loss of income.
- May face a particular push to borrow where they have dependents.

Those borrowing from moneylenders to make larger purchases were generally doing so to finance Christmas gifts to other family members.

The prevalence of ill health, particularly mental ill health amongst users was very striking.

Only one interviewee using an illegal lender was describable as not being in poverty, and he had been in precarious self employment, with a highly uncertain income flow, alongside experiencing addiction issues.
The reasons why customers of illegal moneylenders use that source of credit, rather than others.

Moneylenders are a last resort for those with no other source of credit.

Past use of high cost credit is common, but people have often decided not to seek to borrow again from such sources, believing that they would be rejected on the basis of past payment history problems, or even of their lack of any borrowing history. Some decide not to seek money from sources such as home credit because of what they consider to be its exorbitant cost. There is also some indication that the presence of providers of Home Credit in some communities may have reduced.

For some the speed, immediacy of access or the ease of access to cash from moneylenders makes them preferable to, or as attractive as, other high cost lenders.

People using money lenders lack informal support from families or friends. Asking families or friends for financial help can be difficult and embarrassing, and often they are not seen as being in a financial situation that enables them to provide such. The ability of families and friends to help informally may have been eroded by austerity. Estrangement from, or the temporary or permanent lack of availability of previously relied on family members can also leave people looking to borrow from moneylenders.

Rejection by the Scottish Welfare Fund is also a clear trigger for increased likelihood of moneylender use.

There is no evidence at all that credit unions or personal savings are potential sources of needed cash for people at risk of using moneylenders.

Customers’ experiences of accessing and repaying illegal moneylenders, and of enforcement of compliance with repayment terms.

People access moneylenders through word of mouth, either through the recommendation of friends, acquaintances or neighbours, or through people lending money illegally being widely known within their community.

The process of accessing moneylenders appears to be easy, with initial contact being made directly by phone, by street approach, or by visiting the lender. There appears to be a preference from moneylenders to visit users in their own home to hand over cash.

Interest charged seems to generally sit between £3 and £5 per £10 loaned, to be paid back immediately on receipt of benefit, or in a small number of instalments. Where loans are more expensive, the risk of more negative experience is increased.

Most customers appear to be clear at the start about the terms of repayment, and the financial consequences in terms of increased repayments that would result from not paying. Changes in the amounts charged, deliberate obfuscation of repayment terms, and other tactics, such as only asking for the repayment of interest are used by lenders to maintain engagement and repayment over the longer term.

Initial optimism about ability to repay seems often to turn into a feeling of struggle to repay. Users missing payments may end up paying high amounts of money on small initial loans, or borrowing on a number of occasions, sometimes increasing amounts. The situation for users may justly be described as a vicious circle, into which they may be drawn apparently slowly but ineluctably, or fall very quickly.
Users may be subject to harassment. This may include lenders seeking them out in their own home, or at the bank when withdrawing money. Lenders often know when users newly have access to cash through benefit payments.

More explicit threats of violence or damage to property may be made to users. The reputation of lenders and knowledge about their associates may reinforce threats, or mean that such threats are only implicit, or are subtle in nature.

Lenders’ attitudes may change across the period of engagement with a user, changing in response to whether a user makes repayments as instructed.

**The financial and psychological impact of using illegal moneylenders.**

Users find their mental health placed at risk, or may find existing mental health problems exacerbated by the stress of using a moneylender and the threats and harassment experienced. Many fear the potential impact of lender behaviour on family members.

There may be exceptions to this, where users borrow from friends, or where they borrow regularly in what appears to be a small scale and controlled fashion.

The financial impact of using moneylenders can be devastating, with users starting in destitution and ending in destitution, with only the loss of even more money and stress to show for their engagement with money lenders in between.

**Customers’ experience of seeking/engaging with help and/ or moving away from illegal moneylenders.**

**How customers have changed their behaviour to avoid future problems.**

**The financial and psychological impact of changing their behaviour.**

Those who escape moneylenders may do so largely under their own steam, taking opportunities to cobble together money as they present themselves, or with the support of their family.

Whilst the absence of support from the Scottish Welfare Fund can trigger the use of moneylenders, provision of support by the Fund can contribute to escape by freeing up resources to pay lenders.

Foodbanks and other charitable sources of humanitarian aid may also help in that way.

Those who access advice may use it to stabilise their situation prior to, or after, paying off their loan. Even those who engage constructively with advice services may not change their behaviour completely.

There is less sign of advice services helping people who are in the midst of engagement with a money lender, with users feeling that there is little that can be done to help them directly as they focus on getting the money to pay their debt.

Those leaving money lenders behind generally feel that this offers them an opportunity to make a fresh start. However, for those who have exited the situation, levels of concern about slipping back into a problem situation may remain high. People may feel that they remain ‘close to the edge’ and struggling to reach safer ground/ a more stable financial situation.
Some users who have been unable to exit their situation fear being trapped for the longer term, even if they manage to pay off their immediate loan. Others are more optimistic.

**Advice and other organisations’ experiences of reaching out to customers of illegal moneylenders.**

**Advice and other organisations’ experiences of supporting customers of illegal moneylenders.**

Few people using money lenders were engaging with advice services, and few advice services were engaging with many people using moneylenders, even where they were dealing with very vulnerable clients and making the explicit attempt to reach out on this issue.

The Scottish Welfare Fund providers appear to engage with more users of money lenders, but they also suspect that applicants do not always reveal moneylending usage.

It may be the case that:

- Users of moneylenders do not seek for help with that situation from advice organisations or hide the fact that they are borrowing from moneylenders, out of fear, stigma, or out of the belief that it will not help their situation.
- Users of moneylenders are not in contact with many public organisations who might help with aspects of their situation, or those who are in contact with organisations do not identify that they are using illegal moneylenders, and/or who are not linked to the advice sector.

It appears clear that the existing efforts to target the users of illegal moneylenders through the advice sector have not borne fruit. It may be the case that effort directed elsewhere could have more success.

Though there is little experience of dealing with the customers of illegal moneylenders in the advice sector, staff within the sector were conscious of the limits of what they could do for users if they did seek help. Many referred to making contact with Trading Standards Scotland as their likely preferred first step in such a situation.

**Recommendations**

1. The importance of the Scottish Welfare Fund as a mechanism for preventing people from using moneylenders, and as an assistance to extricating themselves from use of lenders needs to be understood, and acted upon.

It is not clear whether those interviewees reporting that they had been rejected by the Scottish Welfare Fund before using moneylenders had been rejected because they had reached the maximum number of awards in a given time period, because they did not in some other way fulfil the relevant criteria, or because the fund was oversubscribed.

However, it seems clear that increasing Scottish Welfare Fund budgets, increasing the awareness amongst potential referrers and fund administrators of the potential role of the Fund in supporting those using moneylenders, and training fund administrators to better identify clients using moneylenders could have a positive impact.

Given concerns that awareness of the Scottish Welfare Fund might not be as high amongst potential users as it could be, these efforts and this investment should be accompanied by a new publicity drive.
2. The lack of success from projects designed specifically to reach people using moneylenders, means that it is difficult to set out ways in which future specific projects or the sector more generally might better engage with them.

Initially at least Trading Standards Scotland should therefore focus on conducting a wide ranging discussion with the advice sector, supported by CAS and MAS, focused on exploring the reasons for non engagement between users of moneylenders and the sector.

3. Trading Standards Scotland might also consider refocusing its partner engagement efforts in three directions, reaching out to:
   - State, housing and voluntary sector organisations working with vulnerable individuals around issues such as homelessness, family support and addictions.
   - Voluntary sector organisations working with clients who are destitute, including groups such as foodbanks.
   - Health and housing providers, particularly those who work with people who have addiction issues, and/or may identify people who are destitute.

With each of these sets of partners, work should focus on:
   - Spreading understanding of those who use moneylenders.
   - Supporting partners to improve their ability to open discussions on clients’ finances where appropriate.
   - Supporting them to make available publicity/ communicate messages about how users of moneylenders might extricate themselves from the situation through sources of help available in their community.

4. Informal intelligence about moneylender activity is gathered by a variety of agencies in addition to Trading Standards Scotland. TSS should continue its efforts to access such information, and consider whether blanket or more targeted approaches to publicising services and mechanisms which can support escape from illegal moneylenders might work in areas where their activity has been identified, perhaps using social media platforms.

5. Although the research did not turn up direct evidence of this occurring, the possibility exists that illegal moneylending activity is being even better hidden these days as lenders shift recruitment online. Trading Standards Scotland should investigate further whether this has been happening through social media platforms.

6. Finally, over the last few years the issue of destitution, and concerns about the impact of welfare reform, particularly Universal Credit, have been the focus of much policy, political and campaigning activity, often linked.

Those working in this field should work to understand the interplay between destitution, welfare reform and moneylender use, and make use of the powerful stories of people who have used illegal moneylenders in their campaigning.
If you would like further information on the work of the Scottish Illegal Money Lending Unit or wish to discuss any of the issues raised in this report, you can contact us any of the details below.

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