Summary interim findings: July 2013

The exposure of students to ‘payday’ lenders; challenging predatory lending and developing alternative solutions

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Purpose of study
This study originates from experiences of working with increasingly indebted students at the University of East London (UEL). The purpose of the study is to find out the extent and consequences of the use of payday loans by students, and to ascertain how best to respond.

Key findings

- 8% (58) of the students who completed an on-line survey have taken out a payday loan. The total amount in payday loans borrowed ranged from £50 to £2,500.
- The majority of those who took out a payday loan were living in financial poverty, and using a payday loan as a last resort and as a form of emergency credit to pay rent and buy food.
- The advertising and ease and speed of securing a loan give payday loans an image of ‘normalcy’, and their friendly, non-judgemental, few-questions-asked service makes them an attractive option.
- Having secured a loan students immediately feel relieved, and then embarrassment and shame follow, and students prefer to keep their use of crisis loans as a private matter or only tell their family.
- Few students pay off their crisis loans: 17% (10 students), and the majority experience increasing debts and use many other methods of crisis borrowing including taking out an overdraft and running up arrears on bills.
- The total amount students have borrowed in a crisis ranges from under £100 to over £2,000 (38%)
- At the time of the interviews 37% owed between £1,000 and £5,000, 6% £5,000 - £10,000, and 6% over £10,000.
- The majority of students found it harder to study, found having payday loans stressful to the extent that it affected their sleep, health and personal relationships.
The research
The interim findings from this ongoing study, started in April 2013 and finishing in October 2013, are based on responses to an online MonkeySurvey completed by 712 students who were more likely to be women (57%), than men (40%); younger students aged 18 to 24 years (50%), or 25 to 34 years (36%); and to be black or black British (40%), white British (26%), Asian or British Asian (14%), or other groups such as dual heritage or Irish.

Face-to-face interviews with 12 students who had used payday loans were conducted. Six of these students were women, and six were men; five were black African/British, four were white, two dual heritage, and one Asian; two were under 24 years, two 25 to 29 years, six in their 30s and two older students. Thus, these respondents are typically mature students and they are Christian, Muslim and atheists. It seems that faith is not a barrier to taking out a payday loan.

All the students participating in this study are self-selecting, and although the respondents may not be representative of UEL students, the information gathered from the self-completion questionnaire and the interviews suits the purpose of this study. We are able to build up a picture of the complexities of using a loan to consider a range of possible actions.

Findings that inform a preventive strategy
Headline findings: 8% (58) of the students who completed an online survey have taken out a payday loan. The total amount in payday loans borrowed ranged from £50 to £2,500. At the time of they completed the survey, 10 students (17%) had paid off the loans from their crisis borrowing. Of the 12 who were interviewed, four were crisis-debt free.

Developing a preventive strategy: when the money runs out students have to do something, doing nothing is not an option. Students have to decide what action(s) to take to obtain cash and at this moment of time – a heightened risk period – actions can be taken to intervene and influence their decision-making. Following this initial decision to take out a payday loan, numerous other actions can be identified to mitigate the damage caused by taking out a payday loan. The following findings are all situations where preventive actions can be taken and make a difference:

Reasons students take out a payday loan
The majority of students live very modestly but find it difficult to live on income from their student grants/loans. They may have nursery/childcare costs, high London rents to pay and travel costs and increasing cost of food and household goods. Particular situations or events make it even more difficult to manage on a low income: zero-hour contracts and intermittent agency work means that any additional income is not regular and cannot be relied upon; extra expenditure at birthdays and Christmas; and, when essential household appliances and equipment break down and require repairing. Where these situations occur and students have no savings or access to other forms of credit then they are more likely to take out a pay-day loan.

Some students find it difficult to live within their means because they are susceptible to peer pressure and a consumer-led culture. These students either said that they are going to worry about their debts after they finished at University or they are vulnerable young people who take out a payday loan as a means of escaping from their problems and gaining social recognition and friendship. The following comments are representative of these vulnerable students:
'Yes, because I have had a lot of negative things happen in my life and at times felt really lonely. Therefore, drinking and raving with my friends is my escape from the real world. I am in the SU [Students Union] bar five evenings per week.' (Male, white British)

Students with mental health problems also took out payday loans and one student receiving treatment for a personality disorder took out two loans to go on holiday and her illness is now worse which she attributes to the ‘hassle’ she is getting from payday loan companies.

Figure 1: Circumstances that contribute to students on low incomes taking out a payday loan

The attractiveness of using payday loans
When asked about how they found out about payday loans almost all of our interviewees said through advertising, with TV, internet, newspaper and high street /underground being particularly prevalent forms. The ease of taking out a loan is described by one interviewee, and her response is typical of others:

‘I contacted [short term loan company], that’s the one I saw on TV and I phoned them up and they told me to do it over the internet. And within 10 minutes they gave me £1,100... Not much really, I lied! <Laughs> I said, they wanted to know my occupation, I said I was a property surveyor, they wanted to know how much I earned in a month, I said that I earned £3,300 a month. I told them completely the opposite of my situation, I said I had no dependents and they just accepted it.’ (Female, black British)

Payday loans are particularly attractive when a student anticipated being turned down for a loan or overdraft by a high street bank. Thus, for example, one interviewee elaborated their rationale as follows:
“Because it was quick and easy, they said on the thing you can get an instant decision, so I thought well I don’t have to go into a store and speak to somebody and perhaps if I go into the store they’ll scrutinise my information and realise actually I don’t have the money to pay it back. So I thought if I can try and get through the credit scoring system that way without going in, then I’m going to try it.” (Male, white European)

The sense of relief students feel when they have secured a loan is common and it indicates that their focus is on resolving their immediate crisis, rather than considering the longer term consequences of their actions. One student described the relief she felt when she was able to take out a payday loan over Christmas:

“It was a massive relief......to hear [that the loan application was successful], because that meant I had enough to see me through......Basically I had nothing. I had a couple of large bills come in that took the lions share of my student loan......so I just just found myself in a bit of financial dire straits, so that £50 that I took out meant I was able to get some food and maybe have an extra £10 just in case of some kind [of] emergency happened.’ (Female, Asian)

Shame, increasing debt, and stress

The reality of borrowing in a crisis is that students become embarrassed when they struggled to pay off the initial loan. In fact, many had to take out additional loans as the crises were repeated. In addition to payday loans, which were used repeatedly and one student was juggling repayment charges from seven loans from four different payday loan companies, students used other means of crisis borrowing:

- Borrowed from family or friends (73%)
- Taken out an overdraft (66%)
- Were given an emergency loan from UEL money advice team (41%)
- Run up arrears on bills (31%)
- Run up debts on a credit card (28%)
- Taken out a loan from a bank or building society (21%)

A small minority have used other options; for example, taken out a doorstep or log book loan (4 students), used catalogues (5) or taken out a Credit Union loan (3). Others have sold their possessions, or turned to sex working.

Almost all of the students that we interviewed have taken out multiple loans some of which are to pay off previous payday loans.

Figure 2: Key factors associated with the escalation of debt
The survey findings suggest that students typically keep their financial difficulties private or within the family. Just over a third told no-one (35%) whilst just over a quarter told their family (28%) and 19% said they had told their friends. Very few, 6%, had sought advice from the UEL money advice team and even fewer 5% had spoken to debt counsellors.

Only 10 students (17%) who responded to the survey had paid back all their loans and only four of the 12 students interviewed were debt free. For the rest, except for two students who owed less than £100, their financial difficulties were typically increasing with six students owing over £5000. Table 2 summarises the amount students needed to repay at the time of completing the survey.

**Table 2: Outstanding crisis loans that need to be repaid (n=47)**

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<thead>
<tr>
<th>Outstanding loans</th>
<th>Percentage of students</th>
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<tbody>
<tr>
<td>less than £100</td>
<td>5</td>
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<tr>
<td>£100 - £500</td>
<td>10</td>
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<tr>
<td>Over £10,000</td>
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Note: one respondent did not answer the question and 10 students paid off their loan and are not included in the table.

Not surprisingly the escalation of debt through repeated crisis borrowing was stressful for many students. One interviewee explained:
‘Obviously yeah, you get stressed out because you… as I said the interest gets charged daily, which in a way is to your advantage, if you can help to raise the money to pay back on time. But every day you’re thinking, ‘Oh that’s another £7, that’s another £7 here, I don’t want this thing to get to another month when I have to pay so much money, I just want to pay it back.’’

(Male, black African)

Survey respondents’ comments give insights into worries about being able to eat and pay bills, and how anxieties can become more extreme;

‘It is hard to concentrate when worried about bills and food’; and, ‘Having a loan did not affect me but the fact that I needed one did, I was more worried about what I was going to eat’; ‘I got to a point when I even considered suicide.’

A majority of students (62%) reported finding it harder to concentrate on their studies as a consequence of taking out a loan. This contrasted with 26% who said they were unaffected and five students who said that taking out loans made it easier to study. These findings illustrate the paradox of using a payday loan; they are a practical course of action when the money has run out and it is a relief to have one and to be able to afford to buy food again.

**Findings that inform proactive and activist approaches**

Proactive strategies are designed to complement preventive strategies responsive to the circumstances of students susceptible to taking out payday loans and living with the consequences of taking out a payday loan. They are preventive in a broader sense and reach out to all students by challenging established practices.

The preliminary findings from this study suggest:

- Support for the rise in grass roots campaigns and groups such as the ‘Just Money’ campaign (Citizens UK), the ‘Sharkstoppers’ campaign (Movement for Change) as well as the Citizens Advice Bureau who are working actively to challenge advertising, confront local authorities who allow money lenders to rent shops on high streets, and are demanding the introduction of regulations to curb the exploitative behaviour of payday lenders.
- The profile and visibility of credit unions, and opportunities for students to become a member could be significantly improved.
- Nationally there is scope for policy-makers to revisit the system of student finances not just in the context of assessing realistic amounts of financial support from the state, but also in terms of widening participation in the higher education sector and social mobility. The experiences of UEL students suggests that those who come from low income households have few means of extricating themselves from additional debts, once they stop paying off credit cards or borrowing from friends. If Universities do not have enough funds to meet the needs of students in a financial crisis and have to restrict the amount given to each student this does not prevent a student from taking out a payday loan.
- There are some things that the university can do effectively. By taking a strong stand on the issue it can challenge the normalcy of using payday loans. For example, UEL took the bold decision to ban advertising from payday lenders on the campus in February 2013. Even though this ban was largely symbolic it served to raise awareness of the issue on the campus
and beyond. UEL is currently looking to capitalise on this with a poster campaign timed for the arrival of the new intake of students in 2013-14.

Further information

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