

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

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1. Introduction

A recent report by the National Union of Students (NUS, 2012) found significant levels of anxiety over day to day living costs and future levels of debt. These were particularly pronounced for vulnerable groups with 67% of student parents worrying about not having enough money to cover basic living costs. As university lecturers involved in the pastoral care of our students, working at an institution situated in one of the poorest boroughs in London, we are reminded on an almost daily basis of the financial pressures students are under whether this takes the form arriving late to class in order to avoid the peak train fare or students going without core books in an attempt to save money. We have also found ourselves, on more than one occasion, fielding absurd and tragic questions like whether house repossession or moving into a shelter represents grounds for an extension. While our university like many has excellent support services run by dedicated staff it is increasingly difficult to refer students to the appropriate service and refocus on the academic without further ado.

This study originates from these experiences of working with increasingly indebted students at the University of East London (UEL). At a meeting in January 2013, students and staff from different sectors of the university (academic, administrative, money advice teams, university chaplaincy and student unions) shared anecdotal evidence of their widespread use on the campus. This convinced us of the need to launch a campaign and to conduct research into the extent and consequences of the use by of payday loans by students and how best to respond.

The following paper describes early findings from an on-going research study. The paper draws on existing studies before presenting the results from a survey of students at UEL and interviews with students who have taken out a crisis loan. Drawing on the findings, possible preventive actions are considered.

2. Understanding the use of payday loans

At the heart of the debate on using payday loans, home credit or doorstep lenders lie some deeply held, but different, beliefs about payday loans as a social problem. On one hand, the use of payday loans are understood as unproblematic as they: provide people living on low

incomes with an option to buy essential goods and services; are socially acceptable in a consumer culture where the use of credit is everyday practice and transactions that people enter into willingly; and, the behaviour of loan companies, who charge high APRs, consistent with private companies operating in a free market capitalist economy. On the other hand, the use of payday loans is identified as a serious social problem, and increasing in severity. Payday loans are perceived as: a practice that should be curtailed and private companies regulated; causes of stress and anxieties, and exacerbate health problems; a practice that effects the vulnerable in our society who should be protected, not exploited; and, whilst people on low incomes need cash as a necessity, and often in an emergency, alternative forms of credit should be made available that avoid a 'debt trap'. These positions are shaped by different and often conflicting social values and opinions about acceptable and unacceptable moral behaviour and societal responsibilities, placing payday loans in a politically charged environment.

Yet, this core tension between, on the one hand, social acceptability, dominant beliefs in unfettered markets and the universality of credit for all, and, on the other, high personal cost and cost to society has led to a policy impasse. The personal and social harm caused by using payday loans has been common knowledge for over a decade yet the use of payday loans has escalated with the market growing from £900 million to £2.2 billion in the last three years (OFT, 2013). This trend can be expected to continue as the economic austerity policy of the current government increases the number of people living on low, and reduced, incomes. Indeed, in the absence of national policies, local actions to curb the behaviour of the industry are becoming more common place. It is within this politicised context where feelings run high, that different understandings and meanings given to payday loans are discussed.

When using short-term high cost loans is normal

Research studies have identified several factors which give the impression that taking out a payday loan is normal behaviour and these include the concentration of payday lender shops in particular localities, neighbourhoods with a tradition of borrowing and lending, the role of advertising, and as planned financial management (Consumer Finance Association, 2013).

Studies in America and Canada have found that payday lenders are attracted to particular neighbourhoods where they open up shops, typically on main roads, and a number of

companies can be found competing for business, alongside pawnbrokers and betting shops (see, for example, Gallmeyer and Roberts, 2009). These neighbourhoods are characterised by a concentration of groups of people, such as military personnel and older people living on pensions, living in the area (Gallmeyer and Roberts, 2009).

In the UK it is possible to observe this phenomenon in many towns and cities. In London, for example, Leyton High Road starts with respectable retail shops and when you reach street numbers in their 700s, a couple of miles down the High Road, the street is full of loan shops, pawn brokers and betting shops, one after the other on both sides of the road. The effect of this concentration of loan shops is that the area has gained a reputation as 'the place to go for a loan,' their high street presence makes them highly visible and accessible, and gives the impression that 'everyone' is taking out a loan or placing a bet. In short, it is normal behaviour.

In some low income neighbourhoods the use of home lenders is part of a long tradition of lending and borrowing and has been routine practice for several generations (Jones, 2001). Doorstep lenders provide a friendly service and weekly repayments are part of the fabric of the community (Jones, 2001), arising from a common belief that 'everyone does it' because 'everyone is in debt' (Goode, 2010:106).

To date we have been unable to locate any studies specifically on the possible affect of advertising by payday lenders on people's behaviour, but even the casual observer can routinely see advertisements on the train, on billboards, in cinemas and on television. When advertisements to take out a payday loan appear between clips promoting cornflakes and the latest fast car, the impression is given that they are part of 'everyday life'. Combined with the cultural norm of 'buy now and pay later' mentality and smart phones, owned by 70% of young people, accessing a loan in response to an advertisement is quick and easy (Consumer Finance Association, 2013).

Another set of arguments, not surprisingly promoted by the short-term loan industry, is the emergence of an attitudinal shift towards borrowing and spending since the banking crisis in 2008 (Consumer Finance Association, 2013). With the increased difficulty in obtaining credit and greater distrust of mainstream banks, almost half of the 1,105 telephone interview respondents (49%) said that banks are dishonest (Consumer Finance Association, 2013), those seeking credit are motivated to find alternative forms of credit, and with rising costs and

stagnant wages, frozen or declining in real terms, there is a greater demand for the use of credit. Young people in particular have a different attitude towards debt and do not use short-term loans as a 'last resort' or 'in a crisis' but rather as part of how they plan their finances, and easy access and being able to use new technology increases their inclinations to use payday loans (Consumer Finance Association, 2013). It is argued, from this perspective, that people are making responsible, rational and positive choices in their decision to use short-term loans (Consumer Finance Association, 2013).

Surveys of those who have used short-term high cost loans have found that a minority of respondents say that they experienced no increase in anxiety or stress as a result of taking out a payday loan; for example, 15% experienced no stress borrowing (Marsh et al., 2010).

The appeal of payday loans

Using payday loans appeal to those living on low incomes in at least two senses; firstly, their accessibility and immediacy is attractive, and secondly, they typically offer a service that enables people to maintain their dignity and self-respect, and to have some control over the transaction (Jones, 2001; Flaherty and Banks, 2012).

Whilst certain conditions and attitudes may promote 'normalcy' and make it possible for people to consider taking out a payday loan, despite its high cost, research has also found that during the transaction process itself people are most concerned to retain and maintain their dignity and self-respect (see for example Jones, 2001). The private loan companies and doorstep lenders understand these desires and their services are typically non-judgemental and friendly (Jones, 2001; Marsh et al., 2010). A signifier of a non-stigmatising service is a notice in the shop window saying 'no credit checks', and like door-step lenders they offer immediate loans with few questions asked and this avoids the embarrassment of not being given instant cash, or being given less than requested. A friendly service gives people a sense of reassurance, offers an opportunity to build social relationships and develop trust (Flaherty and Banks, 2012), and to gain some control over the process.

In a study in low income neighbourhoods in Liverpool, Jones found that catalogues were the most popular form of credit amongst the 59 people on low incomes who participated in the research. They were considered accessible, convenient and had easy repayment plans that

were flexible if a payment was missed, and these considerations over-rode other factors, including the higher cost of borrowing. For the participants in the research, weekly affordability was of more concern than the overall cost of taking out the loan (Jones, 2001: 13).

Lack of alternatives and no way out; living with spiralling debt

Even though using payday loans appeal to some, others may consider alternative sources of credit before deciding how best to cope with their financial crisis.

It is estimated that 9 million people in the UK do not have access to credit from banks, considerably higher than in Germany (2.5 million) and France (3.5 million) (NEF, 2001). Research studies on the use of payday loans which use a social exclusion and inclusion framework to analyse their findings identify multiple reasons why people are excluded from using mainstream banking services; for example, poor credit history, lack of awareness of credit services, and self-exclusion (see, for example, Kempson et al., 2000; Mitton, 2008). These findings attribute financial exclusion to lack of knowledge and competencies of people themselves, with the suggestion that good financial decision-making requires skills, motivation, and better education, and that available financial products do not suit the needs of groups vulnerable to financial exclusion, with the recommendation that financial services are made more relevant to these groups (see Mitton 2008 for a review of this literature). Groups vulnerable to financial exclusion include people living in isolated areas, and those typically marginalised from society; young people not in education, employment or training, ex-offenders, homeless, and people with low incomes, for example (Mitton, 2008). Thus, financial exclusion contributes further to their marginalisation and also to vulnerability.

The research findings from studies that refer to maintaining dignity and self-respect (Jones 2001) alerts us to the possibility that for many social acceptability and 'normalcy' may not apply when they are actually in a crisis situation and their money has run out. In this situation people may feel differently, be reluctant to use a payday lender, and some may search for other means of 'getting by', including borrowing from friends, selling possessions, sex working or turning to crime. Young people may be able to borrow from grandparents or parents. Borrowing from family and friends can, however, put a strain on relationships (Jones, 2001;

Flaherty and Banks, 2012), and young people may prefer not to tell their immediate family that they are having a financial crisis.

Thus, some may be excluded from accessing common forms of credit, some may be poorly informed about how to take out a lower interest rate short term loan, and alternative sources of borrowing and getting cash may be sought, but ultimately those in a financial crisis need to make a decision, and to take action, often in a hurry. Doing nothing is not an option.

Reaching a crisis point and nowhere to turn

One of the tensions embedded in debates about payday loans is , in essence, what is best for payday lenders is worst for those who use, and come to rely on, short-term payday loans. In short there is a conflict of interests. Private company payday lenders make profits when people repeatedly borrow and this exacerbates economic hardship (Marsh et al., 2010). With each additional loan there is a fee and additional interest (Gallmeyer and Roberts, 2009). When levels of debt reach a certain point they spiral out of control and can no longer be managed, and borrowers experience harassment from lenders, the withdrawal of further loans, and penalties can include home repossessions (Jones, 2001; Marsh et al., 2010; Flaherty and Banks, 2012). An ongoing online survey is being promoted by several advice agencies across the UK and of the 1,270 self-selecting respondents who had completed the questionnaire before May 2013, 75% said that they had problems repaying their loans (Citizens Advice Bureau, 2013).

In their study on 30 households with high levels of debt Flaherty and Banks found that they maximised their use of credit by using several sources and by juggling the repayments and delaying paying some utility bills (Flaherty and Banks, 2012). In Canada the majority of survey respondents (63%) borrowed more than once, with over a quarter (27%) borrowing more than once a month, and just under a quarter (23%) borrowing once a month and 13% borrowing one or two times per year (Marsh et al., 2010:16). In this study (n=72) self-rated stress levels associated with using payday loans were high and very high for just over half of the respondents (53%), and moderate for 28% (Marsh et al., 2010:16). 'Loan flipping' or repeat borrowing was estimated to be 91% in one study, providing further evidence of how borrowers get trapped in a spiral of debt (Gallmeyer and Roberts, 2009: 522). These behaviours are supported by findings from an analysis of the nationally representative

National Survey of American's Families (NSAF) data that included information on roughly 42,000 households each year during 1997, 1999 and 2002, and found that the use of payday loans increased difficulty paying mortgages, rent and utilities bills (Melzer, 2011). Although these findings use data from America, there is no reason to believe that a similar study in the UK would have hugely different findings as the payday lending industry operates in a similar economic system.

Studies have found that in some areas, where there is high crime and high levels of fear of crime, and where people obtain a reputation of not repaying their loans, then local people find it difficult to get access to loans from payday lenders or door-step lenders (Jones, 2001). In these areas obtaining any form of credit in a crisis becomes difficult and perhaps these people turn to the internet to take out a loan or seek other, illegal ways, of obtaining cash?

A plethora of possible, but shrinking, services are available for people who are in debt and wish to change their circumstances. A few studies have explored the extent to which services are used and their usefulness. The Citizens Advice Bureau online survey found that only 8% of the respondents were told about the availability of free debt advice by their payday lender (CAB, 2013);

3. Researching the use of payday loans by students

To our knowledge there are no studies specifically on University students and payday loans, but rather, we have found that very small numbers of students are incorporated into community-based studies (Jones, 2001) and included into large scale surveys (Melzer, 2011), but not analysed as a separate group.

Students attending Universities are not, however, typically a discrete category or one type of person; some may have disabilities, some will be lone parents, some young adults under the age of 25 years, whilst others may be mature students in their 50s. Their financial circumstances vary a great deal too; some are self-financing and are financially well supported by their parents who may pay their accommodation costs and everyday living expenses, whilst others may come from families without the means to offer any financial support, and these students may not have paid employment, no savings, and have applied for a student grant without success.

For these reasons we included many of the issues raised in the above discussion into our self-completion questionnaire for students at the University of East London.¹ SurveyMonkey was used and students were asked to complete a questionnaire when they accessed UEL email. The questions included:

- Attitudes towards using high cost short-term loans
- Students' knowledge about accessing loans, including credit unions
- Finding out if students had experienced financial crises and if they had, what actions they had taken to obtain cash
- The amount of debts they accrued as a result of taking out a short-term loan, and if they had paid back their debt(s)
- The effect of taking out a loan on their studies
- Advice and support students sought about their financial circumstances

To understand attitudes and thinking that informed the choices students made, and their feelings about their decisions and its affects on their everyday lives, in-depth personal interviews were conducted. In interviews with students that had taken out payday loans we asked them about the process of taking out the loan; the personal and emotional effects on them of taking out the loan; whether they were aware of alternative sources of credit such as credit unions; and what support services they had used.

Research participants

At the time of writing this paper 712 students had completed the Monkeysurvey of whom 8% (58) had taken out a payday loan. These students are 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.

In addition, 12 students who had used payday loans were interviewed face-to-face, with interviews lasting between 10 minutes and one hour. Six of these students are women, and six are men; five are black African/British, four are white, two dual heritage, and one Asian; two are under 24 years, two 25 to 29 years, six in their 30s and two older students. Thus,

¹ This study was approved by UEL ethics committee.

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.

Nine of the interviews were taped and transcribed and for three interviews notes were taken contemporaneously. The interviews were analysed thematically. Attention was also given to the range and variety of responses and to anomalies to give us a better understanding of the circumstances within which students took out a payday loan, and to understand more about the possible consequences of these actions.

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.

In this paper the information from students who have used a pay day loan(s) is analysed; 58 students who completed the survey and 12 students who were interviewed.²

4. Research findings thus far

The following findings are provisional but they raise many issues pertinent to considering how the use of payday loans by students may be reduced.

Setting the scene; student finances and making ends meet

If we are to make sense of patterns of crisis borrowing amongst students it is necessary first to understand about student finances in general and how this applies to students at UEL. The overwhelming majority of UEL students (80%) qualify for maximum state support. This is significantly higher than other Universities with Bradford the second highest with 64% and other Universities closer to UEL such as Middlesex University with 36% of its students received full state support.

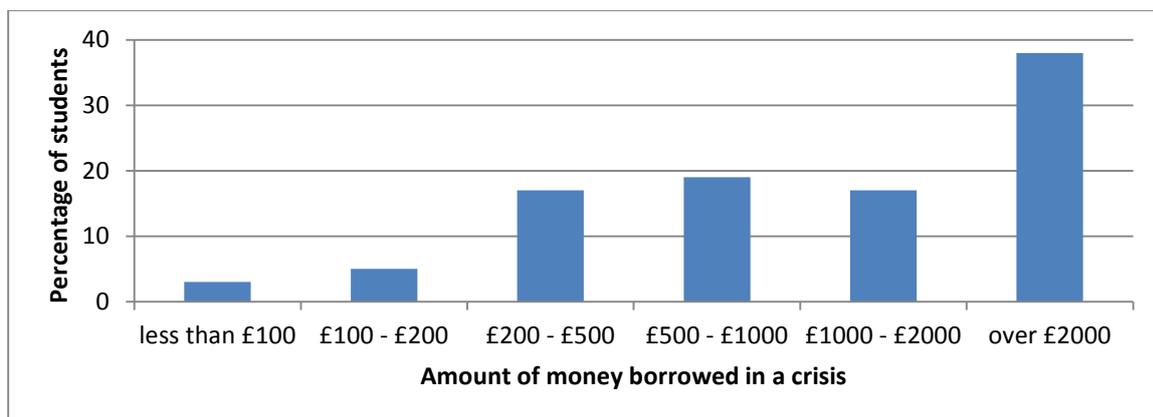
Students qualify for maximum support if parental income or the student's household income if they are classed as independent, is below £25,000 per year. For students living in London

² It is possible that these students responded to the SurveyMonkey and were interviewed face-to-face. The survey was confidential and researchers respected this confidentiality and did not ask if they had completed the survey.

this is £7,729 per annum for those living at home (£4,375 as a loan and £3,354 as a maintenance grant) and £11,029 per annum for those living independently (£7,675 as a loan and £3,354 as a maintenance grant). Those receiving maximum support are also eligible for additional support through funds like the Access to Learning and Summer Support funds.

Of the 58 students who responded to the survey and took out a payday loan, 85% had a student loan and 59% said that they had a grant. Almost half (45%) were in paid employment, and a minority had financial support from their family (17%). In addition students typically live in areas of London where rent is cheaper, although it costs more to travel into UEL. It seems that many students were taking proactive action to minimise their debts. Nevertheless, the amount students had borrowed as a result of a financial crisis is summarised in the table below and shows that over half (55%) have borrowed over £1000 with 38% borrowing in excess of £2000.

Table 1: The amount students have borrowed as a result of a financial crisis (n=58)



To obtain this money shown in table 1 above, these students have used more than just payday loans. In addition to payday loans they have:

- 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. Resorting to several different loans and to other ways of obtaining money in a crisis situation is a pattern of behaviour identified in other studies (Jones 2001; Flaherty and Banks 2012).

Most of the UEL students are single (59%) or a lone parent (24%). A minority are a couple with no children (6 students) or with children (4 students).

Similarly, the majority of the students who we interviewed have taken out more than one loan with the highest being seven times with four different companies. The total amount in payday loans borrowed ranged from £50 to £2,500. When asked whether the loan met their financial needs they answered for the most part in the affirmative but tended to qualify this by referring to their immediate needs being met. Thus while the payday loan enabled them to pay for food or rent it did not necessarily help them out of a financial crisis. This can be gleaned from the fact that most said they would not take out a payday loan again while those that said that they would, would only do so if they had to.

By asking students about the reasons for their financial difficulties we hoped to build up a picture of the motivations behind the use of payday loans. Were students taking out these loans as a result of peer pressure to sustain a lifestyle that was financially beyond them? Or were they using them as a lender of last resort when all other forms of credit had been exhausted or denied them? The responses that we got were mixed although for the most part students were using payday loans to meet basic needs. Three students that we interviewed admitted taking out loans to sustain a lifestyle whether this took the form of frequent visits to the pub, buying designer clothes or going to West End clubs. These students also responded affirmatively when asked whether their attitude was to enjoy themselves at university and worry about debts later. The rest of our interviewees however were borrowing to pay for basics like food, bills, car repairs, and nursery fees. For example, 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 I 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)

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.

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 university money advice team and even fewer 5% had spoken to debt counsellors.

In the interviews, those that sought advice from family were, with one notable exception, actively encouraged to take out the loan.

The ease of taking out a loan

When asked about how they found out about payday loans almost all of our interviewees said through advertising, with TV, internet, newspaper and highstreet /tube being particularly prevalent forms. All took out the loan with a high street payday lender or via the internet or some combination of the two. In response to the question 'why did you decide to take out a payday loan?' most cited the need to access credit which was not available elsewhere or the ease with which they could be taken out. Some respondents cited both. 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)

A frequent claim of the payday loan sector is that these products are designed specifically for a younger demographic that finds the standard process of applying for a loan too time consuming and intrusive (Consumer Finance Association, 2013). While we found some

evidence of this, when we analysed further we found that our interviewees offered this as a reason where they 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)

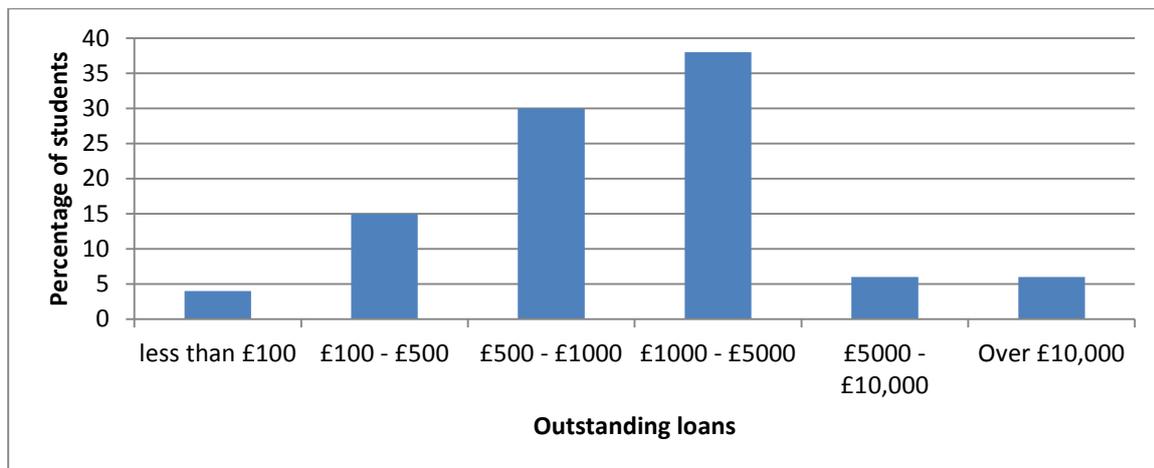
The pain of living with crisis loans

Perhaps most significantly most students were struggling to pay back their loans and most were getting further and further into debt. The following comments from one interviewee are representative of comments by other students who find their situation stressful and who would like to get rid of their debt:

'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)

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)



Note: one respondent did not answer the question and 10 students paid off their loan and are not included in the table.

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. The interviews found that whilst there was an immediate sense of relief in the longer term the stress and anxiety about paying off the interest became apparent.

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.'*

Most of our interviewees reported feeling stressed and anxious as a result of being indebted to short term high interest loans. A number reported sleep problems and two students said it had affected their mental health. Students spoke of being subjected to a barrage of text messages for other companies offering instant cash. One student reported having to give up her phone as a consequence of the sheer volume of text messages she received from payday

loan companies and various debt management companies. This bore out finding in the survey that indebted students find it harder to focus on their studies.

5. Thinking about how to reduce crisis borrowing

Broadly speaking, two types of related actions can be identified; actions that prevent students from using payday loans in the first place and actions that can be taken to alleviate debt and offer students emotional support to cope with their situation and improve their decision-making.

Preventive issues

In thinking about how to develop a preventive strategy we have identified a number of decision-making processes that are typical of students who are unable to live on low incomes. Understanding these processes will enable us to anticipate when, and how, best to intervene to enable students to make different decisions. Examples of these interacting processes are: the power of advertising, the use of payday loans as emergency credit, rather than as a bridging loan, and a 'heightened risk period' when students are considering making a loan. Each is discussed in turn.

Our study has found that blanket advertising employed by the payday lending sector appears to work. Almost all of the people we interviewed, with the exception of one former employee, found out about payday loans via advertising whether this was on the TV, billboard or internet. By contrast all but one of our interviewees – who had a savings account with them – had never heard of credit unions. There is a massive imbalance here which is compounded by the ease with which payday loans can be taken out. All of the students we interviewed described the process of taking out a payday loan as very easy. Four of our interviewees actually cite the ease with which payday loans can be taken out as a determining factor in taking out the loan in the first place. This implies that the difficulty of applying for a bank loan or credit union is a reason why people turn to payday loans. The combination of ubiquitous advertising and ease of access is a powerful combination and a difficult one to redress.

Our study also shows that, for the most part, payday loans are not used as payday loans but as a lender of last resort. In other words payday loans are not being used as bridging loans until the next pay cheque arrives but as a source of emergency credit where no other credit

is available. This throws into question the claim by the industry that the vast majority of loans are taken out responsibly (Consumer Finance Association, 2013). Insofar as this applies to students we found this not to be the case. We have found evidence that students are turning to payday loans at specific points in the year (Christmas, summer) where alternative sources of credit (bank loans, credit cards overdrafts) are either unavailable or not heard of. Some of the students that we interviewed appeared to have little money management skills and to be unaware of the scale of the trouble that they had got themselves into. Others gave ample evidence of financial awareness and knew full well the amount that they had to pay back. The absence of alternatives, however, and evident need appeared to drive them to take out payday loans albeit with reluctance and in some cases accompanying feelings of shame and inadequacy. We also found evidence that students were taking a punt on the credit scoring system of online lenders knowing full well that if their application was subjected to proper scrutiny they would be turned down.

In the 'build up' to taking out a loan, students' attention and decision-making is focussed on the immediate problem of obtaining money as quickly and easily as possible. This 'build up' period can vary from several days to less than an hour and is a period of 'heightened risk' when support organisations and systems can actively influence decision-making. There may be warning signs prior to this period of heightened risk and we anticipate being able to identify these factors at a later stage in this study.

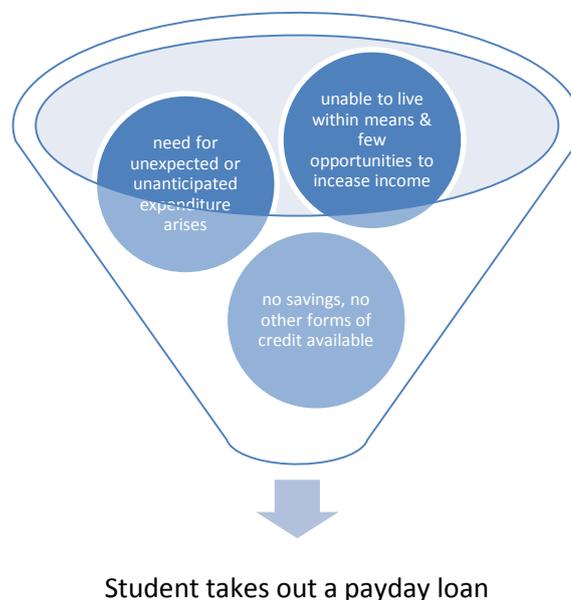
Preventive strategies can also be responsive to the reasons a student takes out a loan. Some students find it difficult to live within their means because they are susceptible to peer pressure and a consumer-led culture. These students either said that they are going to worry about their debts after 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.

In our study we have found that the majority of students live very modestly but find it difficult to live on income from their student grants. 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. The issues identified in figure 1 below summarise findings from our study and are relevant to thinking about how to develop a preventive strategy.

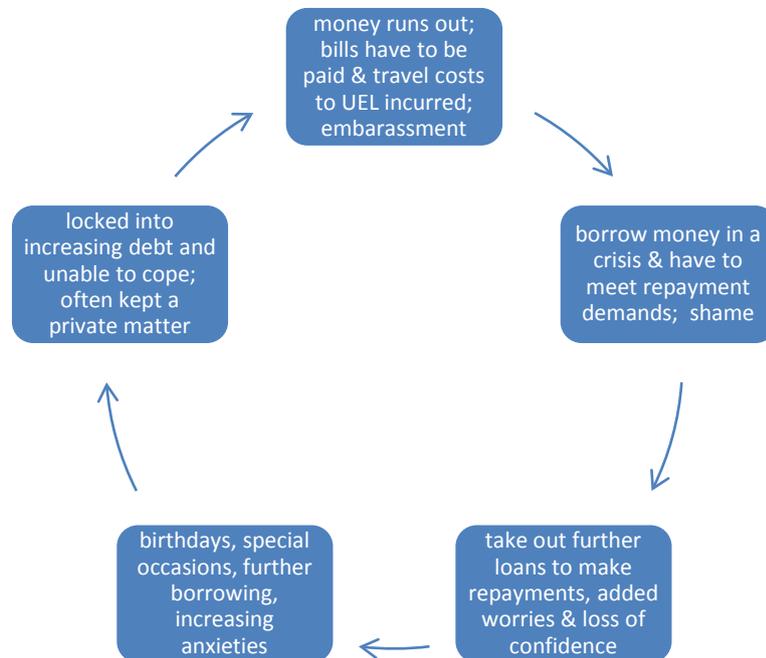
Figure 1: Circumstances that contribute to students on low incomes taking out a payday loan



Escaping from a debt trap

Once students have a payday loan action can be taken to prevent them taking out a further loan and to support them to manage their finances to be able to pay off their loans. The challenge is that taking out payday loans often traps individuals in spirals of debt with significant consequences for their academic performance, their individual well-being and in some cases their marital relations and mental health. This reasoning follows from the finding that payday loans are for the most part used as emergency sources of credit and not as a bridging loan until payday. It further follows that without any significant improvement in the student's finances this can lead to a spiral of debt. Many of the students that we interviewed were either not working or were in and out of work and with little chance of improving their prospects in the short to mid- term. This poor outlook is further compounded by the fact that almost all of the students that we interviewed have taken out multiple loans some of which are to pay off previous payday loans. In addition to the fact that many students do not have a regular income with which to clear or service their debts, the rolling over of loans and the taking out of additional loans worsens their situation still further. The most vulnerable students face a future blighted by bad credit and related health issues, one in which their employment prospects are poor as a consequence of underperforming in their studies.

Figure 2: Key factors associated with the escalation of debt



6. Developing proactive and activist approaches

The preliminary findings from this study suggest that the multi-faceted problem of students taking out payday loans requires a concerted and co-ordinated approach from a number of different organisations, including universities, policy-makers, credit unions, banks and payday loan companies.

The slow response from government policy-makers has given rise to grass roots campaigners and groups such as Citizens UK, the 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 findings from our study support all these activities.

Recent legislative changes to enable credit unions to expand their business are also to be welcomed. Our research has found that students are excluded from obtaining mainstream

credit, and that they have no savings to draw on when their money runs out. They have to do something and resorting to a payday loan is often the easiest option. Students typically have limited knowledge about credit unions, and they rarely considered them as an option. Our findings suggest that the profile 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. Universities have a limited amount allocated to them from central government for emergency payments, but is this allocation fair? 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 pay day loan. Our research has found that payday loans are used as a source of credit by students and they use them to supplement other loans if they are insufficient to meet their immediate needs.

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. The university is currently looking to capitalise on this with a poster campaign timed for the arrival of the new intake of students in 2013-14.

Through links with community organisations like Citizens UK and Movement for Change the university is looking to build on this engaging in local campaigns. At the time of writing, a campaign focussing on The Money Shop, calling on the company to abide by its Canadian code of conduct and not rollover loans or make multiple loans to the same customer, has yielded an agreement to meet with the head of corporate social responsibility in the company.

Universities can review the way that it supports and advises its students. Recent studies have experimented with mentoring schemes rather than offering one-off advice (Dearden et al., 2010; Flaherty and Banks, 2012). UEL is currently piloting a peer to peer mentoring scheme

with London Citizens. This involves students at UEL being trained as accredited money mentors and delivering workshops at local schools.

There are also initiatives are exploring the possibility of making affordable credit available to students through partnerships between universities and credit unions. Generally credit unions are averse to lending to students who may not local. Our research suggests the credit unions would struggle to compete with payday lenders in terms of service. Students at UEL need ready access to credit. A protracted application process such as that involved with some credit unions is not necessarily going to meet the need of students. Yet models are being piloted such as the one recently announced by Glasgow City Council that may be applicable to students. Whether mentoring schemes or accesses to fair credit reduces the use of payday loans we leave to a future study.

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