Fair Access to Credit

Prepared by a Task Group of the Business Support Overview and Scrutiny Committee and Regeneration, Community and Culture Overview and Scrutiny Committee

August 2012

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1. FOREWORD

1.1 On behalf of the Business Support and Regeneration, Community and Culture Overview and Scrutiny Committees the Task Group is pleased to present the review into Fair Access to Credit, with its associated recommendations for Medway Council's Cabinet.

1.2 The use of credit is sometimes essential in maintaining everyday life, used for a range of products such as clothing, furniture and food and drink. This review has considered evidence and brought forward recommendations on a number of areas for when this credit becomes unaffordable. The Task Group has explored:

- the role of the Council in supporting Medway residents affected by unaffordable credit

  The proposed approach includes work on enabling credit unions, promoting financial literacy and supporting the establishment of a Social Impact Board. A key message was also that of always accessing credit via a licensed lender, making residents aware of the sources of free and independent debt advice and providing a consistent message based upon early contact and intervention when problems arise.

- strengthening the rules governing the issue of lending licences and, recognising that an effective strategy in combating illegal lending was an alternative supply, addressing the lack of affordable credit

  The Task Group's proposed approach focuses on making the consumer credit market more transparent and responsive to the dynamic credit market, giving local authorities greater control over the planning process and enabling affordable alternatives such as credit unions.

- how the Council can promote financial literacy and affordable lending and debt counselling

  The Task Group brings forward recommendations advocating the integration of financial education into the curriculum, financial literacy for all and promoting the timely access to appropriate and quality advice.

1.3 The remit of this review has been unapologetically wide. Considering the currency of the topic, wealth of evidence, with frequent announcements and research from a range of organisations, the Task Group acknowledges that it could not seek evidence and comment from every potential stakeholder. Members were mindful however of the need to complete this review and bring forward recommendations in a timely fashion. It is hoped that the recommendations bring forward a comprehensive package in the interest of Medway's residents, setting a foundation that can be developed locally or submitted to Government as part of the national dialogue on this important issue.

1.4 We would like to take this opportunity of thanking all participants in the review.

The Task Group

Councillor Hicks (Chairman)

Councillor Pat Gulvin

Councillor Juby

Councillor Maple

Councillor Turpin

2. EXECUTIVE SUMMARY

Introduction

2.1 At a meeting of Medway Council's full Council on 12 January 2012 Members considered a motion that recommended the introduction of caps on the total lending rates, called on the government to give local authorities the power to veto licences for High Street credit agencies where they could have negative economic or social impacts on communities, and pledged to promote credit unions in Medway, as community based organisations offering access to affordable credit and promoting saving.

2.2 The Council agreed to refer the issue to a cross-party Task Group of Overview and Scrutiny to enable the Council to consider all the implications; form a better understanding of the role the Council can play in supporting residents and develop a clear policy.

Terms of reference

2.3 The terms of reference for the review were as follows: -

To examine and bring forward recommendations on

- The role the Council can play in supporting Medway residents affected by unaffordable credit and development of a clear policy.
- How the Council can lobby the Government to strengthen the rules governing the issue of lending licences and address the lack of affordable credit. A strategy to manage the supply and demand of high cost credit – focused on making the industry transparent and supporting affordable alternative such as credit unions.
- How the Council can promote financial literacy and affordable lending and debt counselling.

Conduct of work

2.4 A series of meetings took place with representatives from a number of organisations. This included the Medway Citizens Advice Bureau, Credit Unions, trade associations, a loan provider, the Youth Parliament and officers from various sections of the Council. This was supported by additional written submissions from a number of organisations/individuals working within the remit of this review and further desktop research.

2.5 All the Task Group's meetings are outlined in section 5 of this report.

2.6 A Diversity Impact Assessment considering the recommendations is attached at Appendix 1.

2.7 The review was supported by: -
Gavin Stedman, Commercial Services Manager
Anthony Law, Democratic Services Officer

Outcomes of the review

2.8 The following summarises the main findings of the review under the headings of the terms of reference:

<u>The role of the Council in supporting Medway residents affected by unaffordable credit</u>

The proposed approach includes work on enabling credit unions, promoting financial literacy and supporting the establishment of a Social Impact Board. A key message was also that of always accessing credit via a licensed lender, making residents aware of the sources of free and independent debt advice and providing a consistent message based upon early contact and intervention when problems arise.

<u>Strengthening the rules governing the issue of lending licences and, recognising that an effective strategy in combating illegal lending was an alternative supply, addressing the lack of affordable credit</u>

The Task Group's proposed approach focuses on making the consumer credit market more transparent and responsive to the dynamic credit market, giving local authorities greater control over the planning process and enabling affordable alternatives such as credit unions.

<u>How the Council can promote financial literacy and affordable lending and debt counselling.</u>

The Task Group brings forward recommendations advocating the integration of financial education into the curriculum, financial literacy for all and promoting the timely access to appropriate and quality advice.

3. BACKGROUND

3.1 At a meeting of the full Council on 12 January 2012 Members considered a motion that recommended that Medway Council:

- Welcomes the UK-wide cross party campaign to end ‘legal loan sharking’.
- Believes that the lack of access to affordable credit is socially and economically damaging. Unaffordable credit is causing a myriad of unwanted effects such as poorer diets, colder homes, rent, council tax and utility arrears, depression (which impacts on job seeking behaviour) and poor health.
- Further notes that unaffordable credit is extracting wealth from the most deprived communities.
- Believes it is the responsibility of all levels of government to try to ensure affordable credit for all, and therefore pledges to use best practice to promote financial literacy and affordable lending. This will help to ensure that wealth stays in the local economy.

This Council therefore:

- Calls on the government to introduce caps on the total lending rates that can be charged for providing credit.
- Calls on the government to give local authorities the power to veto licences for high street credit agencies where they could have negative economic or social impacts on communities.
- Pledges to promote credit unions in Medway, as community based organisations offering access to affordable credit and promoting saving.

3.2 Following discussion on the motion it was agreed to refer the issue to a cross-party Task Group of Overview and Scrutiny to enable the Council to consider all the implications, form a better understanding of the role the Council can play in supporting Medway’s residents and develop a clear policy. The full text of the Council decision is as follows:

“This Council:

Welcomes the UK-wide cross party campaign to end ‘legal loan sharking’.

Believes that the lack of access to affordable credit is socially and economically damaging. Unaffordable credit is causing a myriad of unwanted effects such as poorer diets, colder homes, rent, council tax and utility arrears, depression (which impacts on job seeking behaviour) and poor health.

Further notes that unaffordable credit is extracting wealth from most communities.

Believes it is the responsibility of central government through legislation to ensure access to affordable credit.

Agrees that the issue of debt and affordable credit is an important and complex issue and is causing stress and anxiety to many families in Medway.

This Council therefore:

Resolves for this issue to be referred to a cross-party task group of Overview and Scrutiny as a priority. This will enable the Council to consider all the implications, form a better understanding of the role the Council can play in supporting our residents and develop a clear policy.

In particular it recommends that the task group considers how the Council can lobby the government to strengthen the rules governing the issue of lending licences and address the lack of affordable credit and how the Council can promote financial literacy and affordable lending.

Pledges to promote credit unions in Medway, as community based organisations offering access to affordable credit and promoting saving."

4. SETTING THE CONTEXT

(a) Legal framework, Council duties and obligations, accountabilities

Consumer Credit Regulation

4.1 The main consumer credit legislation is the Consumer Credit Act 1974, the Consumer Credit Act 2006 and the Consumer Credit Directive 2008, which was adopted by the European Council.

4.2 The Consumer Credit Act 1974 requires most businesses that lend money to consumers or offer goods or services on credit or engage in certain ancillary credit activities to be licensed by the Office of Fair Trading. Unlicensed money lenders (loan sharks) are unlicensed and operate illegally.

4.3 The 1974 Act and its supporting regulations cover a number of key provisions, including:

- Pre-advertising, canvassing and the provision of pre-contract information to customers;
- the form and content of credit agreements;
- post-contract information and early settlement;
- default and termination rules and
- the granting of licences to consumer providers.[1]

4.4 The Office of Fair Trading has issued Guidance on a number of regulated areas including debt collection[2], debt management[3] and irresponsible lending[4]. These documents set the standards of conduct the Office of Fair Trading expect from the lenders that it licences. These guidance documents are reviewed and updated. For example, the *Irresponsible Lending Guidance* was amended in 2011 to give effect to the Consumer Credit (EU Directive) Regulations 2010, which implemented the requirements of the Consumer Credit Directive.

4.5 The Consumer Credit Act 2006 gave the Office of Fair Trading extended powers, including the right to judge a firm's competence to engage in regulated activities. In assessing 'fitness', the Office of Fair Trading takes into account matters such as compliance with the Consumer Credit Act 1974 and the Guidance and the competence of those running the business in question. The Office of Fair Trading monitors the behaviour of consumer credit licence holders on an ongoing basis and, when necessary, takes action against consumer credit licence holders.

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[1] Officer of Fair Trading Website http://www.oft.gov.uk/about-the-oft/legal-powers/legal/cca/

[2] Office of Fair Trading *Debt Collection - OFT guidance for all businesses engaged in the recovery of consumer credit debts* July 2003 (updated November 2011)

[3] Office of Fair Trading *Debt management (and credit repair services) guidance* March 2012

[4] Office of Fair Trading *Irresponsible Lending – OFT Guidance for Creditors* March 2010 (updated February 2011)

4.6 The Consumer Credit Register provides details of applications for and holders of consumer credit licences. It also contains details of the decisions by the Office of Fair Trading to refuse applications or revoke consumer credit licences, together with information relating to any appeal to the Consumer Credit Appeal Tribunal against any such decision.

Credit Unions

4.7 The main law governing Credit Unions is the Credit Unions Act 1979. Credit Unions must be registered with the Financial Services Authority.

4.8 A Legislative Reform Order has recently been made by Parliament and changes to the Credit Unions Act came into force on 8 January 2012. The changes removed restrictions in the current law and allowed credit unions to choose to: -

- Reach out to new groups, by serving more than one group of people
- Provide services to community groups, businesses and co-operatives
- Offer interest on savings, instead of a dividend
- Allow more people who move jobs or home to continue to receive services from the credit union.[1]

These changes seek to allow credit unions to serve more people and use the increased flexibility to provide the services that people need.

(b) Medway's policy framework

4.9 As will be evidenced in section 6 of this report an inability to access affordable credit is not an abstract issue. It can impact on a wide set of strategic priorities, for example it could be disruptive to community cohesion, public wellbeing and homelessness. Tackling this issue was therefore seen as relevant to a number of council policy documents, such as the Council Plan and the Community Safety Plan, and relevant to the council's core values and strategic priorities that underpin all the council's work and its delivery of services to the people of Medway.

4.10 During the course of the evidence sessions specific attention was draw to the Medway Social Regeneration Strategy 2008-2016, which was approved as part of the regeneration framework on 1 April 2008. This strategy defines how all Medway's constituent communities should access the benefits of the regeneration programme in accordance with the following three strategic aims:

- To create a cohesive and inclusive community
- To improve access to employment opportunities
- To ensure physical improvements are accessible to all.

4.11 These strategic aims are transposed into a set of 15 strategic objectives, which highlight how in practical terms existing communities should benefit from the regeneration of Medway. Included within this is the objective of addressing financial exclusion as a barrier to employment. The indicative Action Plan attached to the Strategy presented a list of thematic project actions for social regeneration, including:

[1] Association of British Credit Unions Ltd *Policy Briefing Legislative Change for Credit Unions* 2012

- To extend the geographic remit of Medway's Credit Union, and expand its membership so that disadvantaged communities across Medway can access it services.
- To establish informal financial advice and guidance services at community venues in the heart of Medway's most disadvantaged neighbourhoods.
- To provide access to informal education and training sessions in financial management and bookkeeping for local people experiencing debt difficulties.

4.12 An illustration of how the Social Regeneration Strategy 2008-2016 is being delivered is the EU SUCCES Project. The Task Group was given details of its contribution to managing debt in Medway. The scheme, which runs until autumn 2013 and is led by Medway Council, aims to develop an international programme of effective local employment support and skills development, and will benefit 16-year-olds and older who have traditionally been harder to reach. In Medway, SUCCES provides support for residents in the Chatham, Gillingham and Strood areas. The SUCCES project enables outreach services in key disadvantaged areas of Medway, making a difference to people in terms of tackling debt that can be a significant barrier to employment.

(c) National and local picture

<u>The National picture:</u>

4.13 Fiona Hoyle, Head of Consumer Finance and Fraud at the Finance and Leasing Association, whose Members represent about 1/3 of all consumer credit in UK, advised the Task Group that the UK consumer credit market amounted to £178.8bn in 2010.

4.14 Recent research by Lloyds TSB has shown that consumers are feeling the squeeze on their spending power, with real incomes continuing to shrink. Despite improvements in the affordability of essential items, the weakness in income growth was seen as limiting the benefits for consumers.[1]

4.15 The significance of this review in the context of the national picture has been demonstrated by a number of sources, including:

- the insolvency trade body R3 reporting in 2011 that 60% of the population were worried about their current level of debt; this rose to 78% for 25-34 year olds. It was also reported that 16% of individuals were only able to pay the interest on their debt[2].
- the Citizens Advice Bureau nationally dealt with 8,004 new debt problems each working day. Standard credit card spending in the UK amounted to £1,156,000,000 every single day. In April 2010 there was over £1,460bn in private debt and it was expected that this had gone up significantly.[3]
- At the end of 2011 the average household was paying almost £200 per month in interest.[4]

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[1] Lloyds TSB *Spending Power Report* June 2012
[2] R3 *Personal Debt Snapshot: 'Zombie' debtors emerge* 2011 p1
[3] Submission to the Task Group from Medway Citizens Advice Bureau 2012
[4] Consumer Credit Counselling Service *Consumer Debt and Money Report Q4* 2011 p5

- The Office of Fair Trading 2012-2013 Annual Plan reports approximately 300 active consumer credit enforcement cases, having closed 104 cases during 2011/2012.[1]
- The Financial Ombudsman Service's Annual Review for 2011/2012 reported that the number of complaints received about consumer credit products and activities had increased between 2011 and 2012 by 2%[3], this followed an annual increase of 15% in 2011[2]. Specific mention in the latest review was made as to the rising number of complaints concerning debt management businesses and an increase in complaints on payday loans - from 59 cases in 2010/2011 to 296 in 2011/2012.[3]

4.16 The Governments position concerning banking was set out within the Coalition Agreement in 2010:

> The Government believes that the current system of financial regulation is fundamentally flawed and needs to be replaced with a framework that promotes responsible and sustainable banking, where regulators have greater powers to curb unsustainable lending practices and we take action to promote more competition in the banking sector. In addition, we recognise that much more needs to be done to protect taxpayers from financial malpractice and to help the public manage their own debts.[4]

4.17 There have been a number of reviews of the UK consumer credit market or sectors within this market. In the last 6 years this has included:

- The conclusion of a two-year Competition Commission inquiry into the home credit market[5]
- A review of the High Cost Credit Sector by the Office of Fair Trading published in 2010[6]
- In October 2010 the Government invited comment on how the existing consumer credit and personal insolvency regimes might be improved and sought views on a number of Coalition commitments. This asked for comments on issues arising at each stage of the credit agreement, beginning with credit advertising running through to debt recovery and the provision of advice to those in financial difficulty. The formal response to this was published in 2011[7]
- In February 2012 the Office of Fair Trading launched a review of the payday lending sector, to consider if businesses were complying with the Consumer Credit Act and meeting Office of Fair Trading standards set out in its guidance.

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[1] Office of Fair Trading *Annual Plan 2012-2013* p4/5
[2] Financial Ombudsman Service *Annual Review* 2011 p49
[3] Financial Ombudsman Service *Annual Review* 2012 p57/58
[4] HM Government *The Coalition: Our Programme for Government* 2010p9
[5] http://webarchive.nationalarchives.gov.uk/+/http://www.competition-commission.org.uk/inquiries/current/homecredit/
[6] http://www.oft.gov.uk/shared_oft/reports/consumer_credit/High-cost-credit-review/OFT1232.pdf
[7] http://www.bis.gov.uk/assets/biscore/consumer-issues/docs/c/11-1341-consumer-credit-and-insolvency-response-on-credit.pdf

Recommendation 1:

That the Cabinet welcomes the current scrutiny of the credit market at a national level, as evidenced by the Office of Fair Trading review of payday lending.

Recommendation 2:

That the Cabinet agree that the council should respond to consultations on the consumer credit market where appropriate.

4.18 In addition to this a number of organisations have commissioned and published their own research. For example the Money Advice Trust Information Hub (http://www.infohub.moneyadvicetrust.org/) contains a range of research reports and statistics around money advice, credit, debt and debt remedies and recovery.

4.19 Responsibility for consumer credit regulation will transfer to the Financial Conduct Authority in April 2014. Details of this, together with information as to the nature and challenges of the consumer credit market, are set out in section 6.

The Medway picture:

4.20 Looking specifically at Medway the importance of affordable credit was demonstrated in evidence provided by Medway Citizens Advice Bureau. Members were advised that:

- Medway had the highest level of debt in Kent and the South East, with 36,000 people per year seeking help from Medway's Citizens Advice Bureau.
- £2.5 million worth of debt came through Medway Citizens Advice Bureau each week - most of which was new clients seeking help.
- It was also reported that this was a growing issue for all the constituency wards in Medway.[1]

4.21 The Financial Ombudsman Service reported that it had received over 1,300 complaints from consumers in Medway in the last financial year (1 April 2011 to 31 March 2012). Approximately 25% of the complaints referred to the ombudsman service from consumers in Medway related to banking and credit products.[2]

[1] Submission to the Task Group from Medway Citizens Advice Bureau 2012
[2] Submission to the Task Group from Financial Ombudsman Service 2012

4.22 Detailed below is a case study provided to a Member of the Task Group by a Medway constituent. Further case studies are shown in section 6.

Male aged 24 in full time work taking home £1,100 per month with outgoings £500 month on rent, £80 per month travel.

- He had a good credit rating with 2 bank credit cards, borrowing close to the limit of £2,500 on one card and £600 on another and repaying the minimum each month.
- He obtained a loan from his bank of £4,000 to buy a car and pay for the insurance, the loan cost £150 per month. He was also paying £50-60 per month on the credit cards.
- He went to a payday lender, as he was not able to pay daily living costs. He borrowed small amounts at first and paid it back.
- He then borrowed more from the payday lender and ran an overdraft on his current account which cost him £6 a day
- The bank started sending him final demands and notices. The payday lender charged £50 for a missed payment.
- Eventually he could not pay his rent and his debt spiralled.
- First he went to a debt management company who were going to consolidate the debt, which had risen to £6,000. They wanted to charge £5,500.
- He then went to a debt charity that consolidated the debt and the payments can be increased to shorten the time.

5. METHODOLOGY AND APPROACH

5.1 On 21 February 2012, the Task Group met to discuss the background to the review, as well as scope and determine its terms of reference. At this point the group also considered the methodology for the review.

Terms of reference

5.2 Reflecting the motion agreed at Full Council on 12 January 2012 the Task Group agreed the following terms of reference:

To examine and bring forward recommendations on:

- The role the Council can play in supporting Medway residents affected by unaffordable credit and development of a clear policy
- How the Council can lobby the Government to strengthen the rules governing the issue of lending licences and address the lack of affordable credit. A strategy to manage the supply and demand of high cost credit – focused on making the industry transparent and supporting affordable alternative such as credit unions
- How the Council can promote financial literacy and affordable lending and debt counselling.

5.3 The Task Group considered and set a number of key lines of enquiry, including

a) The role of existing regulated credit providers.
b) Issues/Implications for consumers of such unaffordable credit, such as
   - Access to other forms of mainstream credit.
   - Repeat borrowing and the “rolling over” of loans.
   - The alternatives to high cost credit products.
c) Current national legal framework and campaigns.
d) Facts and figures on current levels of debt in Medway and comparisons with other areas/national picture.
e) The Councils powers and duties in relation to the supply of affordable credit and supporting those in debt.
f) Current support in place and initiatives underway in Medway, including consideration of what is being done to promote financial literacy/financial capability and affordable lending (exploring the role of credit unions).

5.4 The approach, methodology and programme for the review is set out below:

Date	Members in attendance	Other attendees	Purpose
13 March 2012	Councillors Hicks, Pat Gulvin, Maple and Turpin	• Anthony Law, Democratic Services Officer (Medway Council) • Gavin Stedman, Commercial Services Manager (Medway Council)	To gain evidence on the work of Medway Council’s Trading Standards service, whose role is to ensure that businesses compete in a fair and safe manner, ensuring benefits for both consumers and legitimate traders.

Fair Access to Credit

Date	Members in attendance	Other attendees	Purpose
20 March 2012	Councillors Hicks, Pat Gulvin, Juby, Maple and Turpin	• Dan McDonald, Chief Executive Medway Citizens Advice Bureau • Claire Legg, Medway Citizens Advice Bureau • Keith Towler, Medway Citizens Advice Bureau • Susan Pledger, Private Sector Housing and Housing Options Manager (Medway Council) • Fawad Bhatti, Community Inclusion Co-ordinator (Medway Council) • Tim England, Head of Safer Communities (Medway Council) • Anthony Law, Democratic Services Officer (Medway Council)	To gain evidence from: • Medway Citizen Advice Bureau, which offers advice on a wide range of subjects from housing and health, to debt and consumer issues. • Medway Council's Private Sector Housing and Housing Options Manager, whose team provides information and assistance to private landlords, tenants and home owners.
17 April 2012	Councillors Hicks, Pat Gulvin, Juby, Maple and Turpin	• Fiona Hoyle, Head of Consumer Finance & Fraud, Finance and Leasing Association • John Fowler, Chief Officer, Kent Savers Credit Union Ltd • Caroline Swift, Chairman of Medway Credit Union Ltd • Barry Epstein, Credit Union Training and Enterprise • Gavin Stedman, Commercial Services Manager (Medway Council) • Anthony Law, Democratic Services Officer (Medway Council)	To gain evidence from: • The Finance and Leasing Association, as a financial services trade association representing around 100 lenders from the consumer credit, motor finance and asset finance sectors. • The two Credit Unions serving Medway - Kent Savers Credit Union Ltd and Medway Credit Union Ltd.
24 April 2012	Councillors Hicks, Pat Gulvin, Juby, Maple and Turpin	• John Lamidey, Chief Executive, Consumer Finance Association • Clem Smith, Head of Economic Development and Social Regeneration (Medway Council) • Gavin Stedman, Commercial Services Manager (Medway Council) • Anthony Law, Democratic Services Officer (Medway	To gain evidence from: • The Consumer Finance Association, as a financial services trade association representing the interests of businesses offering short term, unsecured personal loans. • The Head of Economic Development and

Date	Members in attendance	Other attendees	Purpose
		Council)	Social Regeneration at Medway Council, whose team works with local residents, community organisations, the voluntary sector and other public service providers ensuring existing communities have access to the benefits of Medway's regeneration.
15 May 2012	Councillors Hicks, Pat Gulvin, Juby, Maple and Turpin	• Gavin Stedman, Commercial Services Manager (Medway Council) • Anthony Law, Democratic Services Officer (Medway Council)	To consider written submissions to the Task Group.
25 May 2012	Councillors Hicks, Juby, Maple and Turpin	• Medway Youth Parliament • Anthony Law, Democratic Services Officer (Medway Council)	Attendance at the Medway Youth Parliament was to ascertain their experiences and views on financial education in Medway's schools and to explore potential improvements to ensure the youth of Medway have the skills and confidence to manage money effectively.
29 May 2012	Councillors Hicks, Pat Gulvin, Juby and Maple	• Jon Poulson, Revenue and Benefits Manager (Medway Council) • Tina Barnard, Benefits Manager (Medway Council) • Henry Raine, Wonga.com Ltd • Dan McDonald, Chief Executive Medway Citizens Advice Bureau • Claire Legg, Medway Citizens Advice Bureau • Gavin Stedman, Commercial Services Manager (Medway Council) • Anthony Law, Democratic Services Officer (Medway Council)	To explore the Government's proposals to localise Council Tax Benefit and other benefits changes and discuss the new framework for the Social Fund. To explore the background and working practices of a loan provider. To consider written submission submitted to the Task Group.

27 June 2012	Councillors Hicks, Pat Gulvin, Juby and Turpin	• Carly Stoddart, Senior Planner • Gavin Stedman, Commercial Services Manager • Anthony Law, Democratic Services Officer	To consider the potential for planning controls over the number of lenders in the High Street. To consider written submission submitted to the Task Group.
17 July 2012	Councillors Hicks, Pat Gulvin, Juby and Maple	• Gavin Stedman, Commercial Services Manager • Anthony Law, Democratic Services Officer	To agree and finalise the Task Group's recommendations.

In addition to the work outlined above and evidence obtained from a review of documents available electronically, the Task Group received written evidence from:

- British Bankers' Association
- Consumer Credit Counselling Service
- CVS Medway
- Financial Ombudsman Service
- Illegal Money Lending Team, England
- Medway Council's School Improvement Team
- Medway Youth Trust
- Medway's 3 Members of Parliament - Tracey Crouch MP (Chatham and Aylesford), Rehman Chishti MP (Gillingham and Rainham) and Mark Reckless MP (Rochester and Strood) (joint response)
- MidKent College
- Money Advice Trust
- Office of Fair Trading
- Silverbank Park secondary pupil referral unit
- Stella Creasy, MP (as sponsor of the Consumer Credit (Regulation and Advice) Bill 2010-12)
- The Hundred of Hoo School.

In order to consider the experiences of local residents the Task Group considered 12 case studies provided by the Medway Citizens Advice Bureau.

The Task Group would like to thank all participants in the review and a copy of this review document will be sent to all of them, together with the final decisions of the Cabinet.

The outcome of this evidence gathering is reported, in summary, within section 6 of this report.

6. SUMMARY OF EVIDENCE COLLECTED

6.1 Credit Market – An Overview

6.1.1 Fiona Hoyle, Head of Consumer Finance and Fraud at the Finance and Leasing Association, whose members represented about 1/3 of all consumer credit in UK, advised the Task Group that the UK consumer credit market amounted to £178.8bn in 2010.[1]

6.1.2 It was also reported that for Finance and Leasing Association members consumer credit spending had remained flat in 2011 (at 2010 levels (£52bn)). Fiona Hoyle advised that people were using credit to maintain everyday life, breaking this down as follows:

- 56m credit cards – 10.6m buy electrical goods, 5.9m clothing and footwear, 5.5m home improvements and 3.5m food and drink.
- Store instalment credit – 2.6m furniture/660,000 electrical goods
- Store cards – 1m clothing/300,000 furniture and electrical goods
- Motor finance – 700,000 new cars and 500,000 second hand cars.[2]

6.1.3 The Finance and Leasing Association saw consumers as being cautious in uncertain economic times, demonstrated further by consumers paying off outstanding debts.

6.1.4 In 2010 the Office of Fair Trading carried out a review of the High Cost Credit Market, which included pawn broking, short term small-sum lending such as payday loans, home collected credit and rent-to-buy retail credit. It is noted that such lenders are legitimate businesses with consumer credit licences issued by the Office of Fair Trading, as opposed to 'loan sharks' who carry on the business of consumer credit without a consumer credit licence.

6.1.5 The general conclusion of the 2010 review was that the high cost credit market, in a number of respects, was working reasonably well for consumers who were not catered for by mainstream suppliers. However the review did report some specific issues: it found that many consumers were unaware of the advice that was open to them; consumers tended to focus on accessibility and affordability of repayments rather than the total cost and, with few significant entrants to these markets, there were concerns as to competition and high prices. Included within the recommendations arising from this review were measures to help consumers make informed decisions, the promotion of best practice, and the use of price comparison websites to make information on high-cost credit loans available and ensuring that financial literacy programmes covered high-cost credit products.[3]

[1] Finance and Leasing Association presentation to the Task Group 2012
[2] Finance and Leasing Association presentation to the Task Group 2012
[3] http://www.oft.gov.uk/news-and-updates/press/2010/63-10

6.1.6 In a submission to the House of Commons Business, Innovation and Skills Committee, the Department for Business, Innovation and Skills gave the following breakdown of the high cost credit market[1]:

Breakdown of high cost credit market	
Home collected credit	£4bn typical APR 3-400%
Payday loans	£1-2bn (Approx) typical APR 2500%
Pawnbroking	£1-2bn (Approx) typical APR 100%
Bills of sale (Logbook loans)	£30-40m typical APR 4-500%

6.1.7 The Finance and Leasing Association reported that about 70% of credit applications were turned down, in part due to applicants not meeting lending criteria, and that this rose to about 75%-80% in the payday market.[2]

6.1.8 It was also noted that the Office of Fair Trading Annual Plan for 2012/2013 referred to 300 active consumer credit enforcement cases, having closed 104 cases during 2011/2012.[3]

6.1.9 In order to understand the experiences of local residents the Task Group considered 12 case studies provided by the Medway Citizens Advice Bureau. The full list of case studies is attached at Appendix 2 to this report and a summary of 3 such cases is outlined below.

Case study A
A Medway Citizens Advice Bureau client was made redundant and struggled to keep up with mortgage repayments as well as paying other creditors and utility providers. Their marriage had broken down and property repossessed. They now worked part-time and still could not afford to make repayments to creditors. They were considering bankruptcy. They had Council Tax arrears (£1,200), a mortgage shortfall (£40,000 approx), overdraft and car loan (£6,197.89), gas, electricity and water arrears for previous property (£1998.16), phone bills (£602.91), a personal loan (£9,003), credit cards (£3511.66) and 4 payday loans (totalling £2218.12).

Case study B
A Medway Citizens Advice Bureau client had over £7000 payday loan debts. They were struggling to make basic payments (rent, bills etc) and could risk losing home

[1] Business, Innovation and Skills Committee *Debt Management* 2012 p3
[2] Finance and Leasing Association presentation to the Task Group 2012
[3] Office of Fair Trading *Annual Plan 2012-2013* 2012 p4/5

Case study C
A Medway Citizens Advice Bureau client had lost their job due to work related stress. Living in a mortgaged property with their family they had credit card debts and were struggling to pay priority debts and turned to payday lenders (£1200) but did not realise the interest charges. They had lost their job quickly so could get little help quickly (with benefits) and was struggling to pay any bills. Payday lenders had been contacted as well as all creditors and negotiated token offers.

6.1.10 During the evidence collection it was noted that Medway Citizens Advice would be undertaking a survey of Medway residents, with technological support and resources for training from payday loan provider Wonga. The survey would give residents the opportunity to give their views on lending products and gain an understanding of the issues facing people getting into debt. The Task Group suggested that the findings of this to be reported to the proposed Social Impact Board (discussed in paragraph 6.3.7).

Recommendation 3:

That the Cabinet notes that Medway Citizens Advice Bureau, with support from Wonga, is undertaking a review of lending products and the level and nature of consumer indebtedness amongst Medway residents and would support the findings of this being reported to the proposed Social Impact Board (see recommendation 4).

6.2 A Typical High-Cost Credit Consumer

6.2.1 The consumers of high-cost credit are difficult to characterise, as they include a variety of different demographic groups that vary by product. The Office of Fair Trading website, following their 2010 review of the market, indicates that in many cases, consumers of high-cost credit have lower than average incomes. There are some instances of lower levels of final educational achievement and lower social classes among consumers of home credit, with many home credit consumers noting that they would find it difficult to find a small amount of money without increased borrowing.[1]

6.2.2 The Office of Fair Trading website also notes that there is more variation between customers of payday lending, and little overlap between them and customers of home credit. A typical customer for pawnbroking was described in 2003 as female in her twenties or thirties, with children, and in low paid work or unemployed and receiving benefits.[2]

6.2.3 The Citizens Advice Bureau in their submission to the Task Group identified that 11% of lone parent households use “non-mainstream” loans (payday loans, home credit and pawnbroking) compared to 3% of households overall. Members were also advised that 50% of payday loan borrowers were white-

[1] http://www.oft.gov.uk/OFTwork/credit/review-high-cost-consumer-credit/rhcc-final-qandas
[2] http://www.oft.gov.uk/OFTwork/credit/review-high-cost-consumer-credit/rhcc-final-qandas

collar workers and professionals, and 7% of all payday loan borrowers were solicitors, accountants, doctors or financial advisers.[1]

6.2.4 A survey undertaken by the Consumer Finance Association revealed that the average personal income of a Money Shop payday loan user was £17,582 compared to an average household income of £24,549. 45% of Money Shop consumers were from the ABC1 and 55% from C2DE socio-economic groups.[2]

6.3 The Availability and the Consequences of Credit

6.3.1 Fiona Hoyle from the Finance and Leasing Association advised that 70% of consumers use some form of credit, which would include mortgages, and 30% use unsecured credit. 80% said they could afford credit and they could meet payments on a regular basis. It was also reported that 20% of UK households with income less than £13,500 rely on credit to spread payments for the basics of a decent life.[3]

6.3.2 In her submission to the Task Group Stella Creasy MP referred to the inability of consumers of high cost credit to access other forms of credit, with 25% of the home credit users and 23% of the payday users having no access to other forms of credit.[4]

6.3.3 Given that the availability of affordable credit was synonymous with the implications of debt the Task Group considered the personal consequences and implications of debt. In 2011 the insolvency trade body R3 reported that 60% of the population was worried about their current level of debt, this rose to 78% for 25-34 year olds. It was also reported that 16% of individuals were only able to pay the interest on their debt[5].

6.3.4 The Task Group were also advised of the following statistics provided by the Medway Citizens Advice Bureau:

- 8,004 new debt problems were dealt with by the Citizens Advice Bureau nationally each working day
- the average household debt was £57,697
- £24.88m daily write-offs of loans by banks & building societies
- Every 4.28 minutes someone will be declared insolvent or bankrupt
- Every 17 minutes a property is repossessed
- £188,200,000 daily increase in Government national debt (PSDN)
- £1,156,000,000 total value of all purchases made using plastic cards today (average figure across the year).[6]

[1] Medway Citizens Advice Bureau presentation to the Task Group 2012
[2] Consumer Finance Association *Attitudes Towards Payday Loans Amongst Payday Customers & Policy Makers* 2012 p14
[3] Finance and Leasing Association presentation to the Task Group 2012
[4] Submission from Stella Creasy MP 2012
[5] R3 *Personal Debt Snapshot: 'Zombie' debtors emerge*, November 2011 p1
[6] Medway Citizens Advice Bureau presentation to the Task Group 2012

6.3.5 In relation to borrowers in Britain the Medway Citizens Advice Bureau further advised that:

- Britain has one of the highest levels of personal debt in the world. In April 2010 there was over £1,460bn in private debt.
- A total of £1.2 billion was borrowed in the form of payday loans every year.
- Approximately 5-7 million people in Britain were denied credit because they did not have a bank account, or because they had no credit history.
- 46% of people said they frequently struggled to make it to payday. 10% of these people said it was because of taking out high-cost credit. It was reported that this figure had been tested in Medway and of the 500 people asked, nearly half said they barely made it to payday on their salary.
- Doorstep loans were used by around 3 million people in Britain. A further 2 million people took out payday loans.[1]

6.3.6 The Task Group were provided with details as to the practices of some high cost lenders in Medway, this included marketing campaigns in vulnerable communities. It was also noted that often price was not always the key driver, as loans provided by doorstep lenders and payday lenders were fast and easy to access. Doorstep lenders in particular had built up strong relationships in the community over a number of years.[2]

6.3.7 The Task Group were advised by the Medway Citizens Advice Bureau of the potential for a Social Impact Board in Medway, to monitor and discuss the impact and implementation of key issues, including welfare reform, debt and housing. The Task Group supported the establishment of such a group in providing relevant partners with an opportunity to have a greater understanding of the issues facing Medway's residents.

6.3.8 The Task Group noted that the Council had looked at the implementation of a Fairness Commission at Medway in 2011.[3] This would have scrutinised the extent to which the Council, with its partners, were taking action to narrow the gaps in outcomes and opportunities for Medway residents. The Task Group acknowledged that the Social Impact Board would take on many of the functions that would have been considered by a Fairness Commission.

Recommendation 4:

That the Cabinet support the establishment of a multi-agency Social Impact Board in Medway looking at issues of debt, worklessness and housing. The objective being to continue and enhance partnership working with public, private and voluntary sector providers, with an emphasis upon a co-ordinated approach that actively assesses the needs of Medway residents. That the Board be encouraged, as and when appropriate, to work with the lending trade associations and the lenders themselves.

[1] Medway Citizens Advice Bureau presentation to the Task Group 2012
[2] Medway Citizens Advice Bureau presentation to the Task Group 2012
[3] Medway Council *Topics for Indepth Scrutiny Reviews – Priorities and Timetable* Report to the Business Support Overview and Scrutiny Committee 20 September 2011

6.4 Consumer Credit Regulation

6.4.1 The Department for Business, Innovation and Skills website states that consumer credit regulation is

> "designed to support people's access to credit, ensure fair treatment for consumers from lenders, and provides safeguards to help prevent people from getting into unsustainable levels of debt".[1]

6.4.2 Fiona Hoyle, Head of Customer Finance and Fraud, Finance and Leasing Association advised that an assumption often made, was that because the Financial Services Authority did not regulate the consumer credit market, it was not regulated. She referred to 30 years of regulation, with a "plethora" of regulations sitting beneath the 1974 Consumer Credit. As detailed in section 4 the principal legislation is the Consumer Credit Act 1974, the Consumer Credit Act 2006 and the Consumer Credit Directive 2008.[2]

6.4.3 The Task Group noted that the Office of Fair Trading had also issued guidance on a number of regulated areas, including:

- *Debt Collection - OFT guidance for all businesses engaged in the recovery of consumer credit debts*[3]
- *Debt management (and credit repair services) guidance*[4]
- *Irresponsible Lending – OFT Guidance for Creditors.*[5]

These documents set the standards of conduct the Office of Fair Trading expect from the lenders that it licences.

6.4.4 In information provided to the Task Group, the Office of Fair Trading identified that they applied

> "a risk-based approach to credit licensing that involved greater scrutiny for high-risk licensable activities"[6]

The aim was not to impose unnecessary burdens on businesses whilst ensuring an appropriate standard of consumer protection.

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[1] http://www.bis.gov.uk/policies/consumer-issues/consumer-credit-and-debt/consumer-credit-regulation
[2] Finance and Leasing Association presentation to the Task Group 2012
[3] Office of Fair Trading *Debt Collection - OFT guidance for all businesses engaged in the recovery of consumer credit debts* July 2003 (updated November 2011)
[4] Office of Fair Trading *Debt management (and credit repair services) guidance* March 2012
[5] Office of Fair Trading *Irresponsible Lending – OFT Guidance for Creditors* March 2010 (updated February 2011)
[6] Submission from Office of Fair Trading to Task Group 2012

6.4.5 Stella Creasy MP, in her submission to the Task Group, advised of a continuing campaign in Parliament to address concerns with the high cost credit market through regulation. This had included between 2010-2012:

- the introduction in November 2010 of the Consumer Credit (Regulation and Advice) Bill, which Bill sought to:
  a) impose certain limits on consumer credit interest rates and charges
  b) establish a levy on credit and debit card providers to fund the provision of debt advice services
  c) give powers to local authorities to restrict the provision of premises for licensed consumer credit agencies within a local area
  d) make provision regarding the availability of certain financial services products at branches of the Post Office
  e) introduce other measures relating to the regulation of, and availability of advice on, consumer credit.

  This bill had however failed to complete its passage through Parliament before the end of the session.[1]
- debate within the House of Commons on a motion to introduce a cap on the cost of capital in February 2011.[2]
- a proposed amendment to the Finance Bill reviewing taxation measures and high-cost credit providers in May 2011.[2]
- debate on a further amendment to the Financial Services Bill in March 2012 to give regulators the power to cap the charges any company can levy for credit.[2]

It was also noted that an Early Day motion had been tabled in the House of Commons on 2 July 2012 calling on the Government to impose a cap on the total costs that can be charged by payday loan companies.[3]

6.4.6 Members were also advised of industry codes of practice and it was noted that under increasing pressure the four trade associations (the Consumer Finance Association, Finance and Leasing Association, British Cheque and Credit Association and Consumer Credit Trade Association) had agreed to add a number of commitments to their codes of practice. This included a good practice customer charter, explaining how loans worked and the costs involved and increased transparency about loan repayments.[4]

6.4.7 It was explained to the Task Group that the Council's Trading Standards Service has a duty to

- enforce the Consumer Credit Act 1974 under the *criminal* sanctions
- report any *breaches* of the Act to the Office of Fair Trading
- provide civil (technical) *advice* on the Act to the consumer
- To enforce the Consumer Protection From Unfair Trading Regulations 2008, which covers misleading actions and aggressive commercial practices in all business areas (not just finance).

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[1] http://services.parliament.uk/bills/2010-11/consumercreditregulationandadvice.html
[2] Submission from Stella Creasy MP 2012
[3] http://www.parliament.uk/edm/2012-13/299
[4] moneysavingexpert.com *Payday loan customer charter to launch* 24 May 2012
http://www.moneysavingexpert.com/news/loans/2012/05/payday-loan-customer-charter-to-launch

Some officers were authorised to undertake checks on businesses on behalf of the Office of Fair Trading, which in the past had included reviews of Home Credit users.

6.4.8 The Commercial Services Manager from Medway Council advised the Task Group that Medway Council had not requested the Office of Fair Trading to review any credit licences. Whilst it was considered that this could reflect the reluctance of consumers to discuss such a sensitive matter, the importance of local organisations notifying Trading Standards of licensees acting inappropriately or illegally was stressed; so that the alleged breaches could be investigated in an appropriate and timely fashion.

Recommendation 5:

That the Director of Regeneration, Community and Culture writes to local organisations including voluntary, community and church groups in Medway, emphasising the need to notify Medway Council's Trading Standards team and Financial Ombudsman Service of instances of firms acting inappropriately or illegally to ensure they can be investigated in an appropriate and timely fashion.

6.5 Changing Framework for Consumer Credit Regulation

6.5.1 In 2010 the HM Treasury and the Department for Business, Innovation and Skills considered the merits of transferring responsibility for consumer credit regulation from the Office of Fair Trading to the proposed new Financial Conduct Authority[1]. On 26 January 2012, the Government announced that the Financial Services Bill included provisions enabling a transfer of responsibility for consumer credit to the Financial Conduct Authority. The intention being that the new authority would

> "regulate credit via a rulebook which will replicate at least some existing protections from the Consumer Credit Act but be much more adaptable in dealing with new challenges."[2]

6.5.2 The Financial Conduct Authority would have the single strategic objective of protecting and enhancing confidence in the UK financial system, with three operational objectives:

- securing an appropriate degree of protection for consumers
- protecting and enhancing the integrity of the UK financial system
- promoting effective competition in the interests of consumers.[3]

6.5.3 The Government had set a timetable and methodology on the transfer of consumer credit regulation to the new Financial Conduct Authority. The Department for Business Innovation and Skills website explains that the model for Financial Conduct Authority regulation would be designed with input from the Financial Services Authority, Office of Fair Trading, and

[1] HM Treasury and the Department for Business, Innovation and Skills *A new approach to financial regulation: consultation on reforming the consumer credit regime* 2010
[2] Office of Fair Trading *Consumer Credit Group (CCG) Newsletter* p1
[3] House of Lords and House of Commons *Financial Services Bill* 2012 p26-27

industry and consumer representatives. The transfer would then be subject to an impact assessment and approval by both Houses of Parliament.[1] It was expected that responsibility for consumer credit regulation would transfer to the Financial Conduct Authority in April 2014 and the Task Group noted the comments from Fiona Hoyle for the Finance and Leasing Association, that

> "With around 80,000 firms with consumer credit (of which only about 5,000 were actually lenders) this was no small feat."[2]

In the meantime, the Office of Fair Trading remained responsible for regulating consumer credit.

6.5.4 Echoing the findings of the 2011 HM Treasury BIS *A New Approach to Financial Regulation*[3] the evidence considered by the Task Group broadly showed that those representing the industry tended to note the implications of disproportionate regulation whereas others, such as the Citizens Advice Bureau and the Council, in its own decision of 12 January 2012, promoted the role of regulation in preventing consumer detriment.

6.5.5 The Task Group recognised the Government view that the creation of the Financial Conduct Authority was

> "a real opportunity to improve the way consumer credit is regulated, creating a simpler, more responsive regime with stronger consumer protections."[4]

6.5.6 This was therefore seen by Task Group as an opportunity to address concerns about the consumer credit market. This included the need for better controls on firms entering the market and better scrutiny of business models, as set out in the 2012 House of Commons Business, Innovation and Skills Committee report *Debt Management*, whilst noting the obvious interest to the industry and questions/concerns about whether it would stifle innovation. The Task Group welcomed the creation of a new model of regulation that would set parameters for products and have increased powers, including the ability to take enforcement action or ban products, "the power to act against 'toxic products that cause consumer detriment".[5]

Recommendation 6:

That the Cabinet supports the transfer of the regulation of consumer credit to the Financial Conduct Authority (FCA) and notes that the model for FCA regulation will be designed with input from the Financial Services Authority, Office of Fair Trading, and industry and consumer representatives and the transfer will then be subject to impact assessment and approval by both Houses of Parliament.

1 http://www.bis.gov.uk/policies/consumer-issues/consumer-credit-and-debt/consumer-credit-regulation
2 Finance and Leasing Association presentation to the Task Group 2012
3 HM Treasury and the Department for Business, Innovation and Skills *A new approach to financial regulation: summary of responses to consultation on reforming the consumer credit regime* 2011
4 HM Treasury and the Department for Business, Innovation and Skills *A new approach to financial regulation: summary of responses to consultation on reforming the consumer credit regime* p3
5 Submission from Stella Creasy MP to the Task Group 2012 p1

6.6 Suspension of a Credit Licence

6.6.1 The Office of Fair Trading remains responsible for licensing firms engaged in consumer credit, until the establishment of the Financial Conduct Authority. Whilst conducting it's review the Task Group heard that in March 2012 the Office of Fair Trading had acted to revoke a consumer credit licence based on evidence relating to "unfair business practices"[1].

6.6.2 Whilst welcoming the tough stance on protecting consumers against a large broker of unsecured sub-prime loans and two associated businesses, the Task Group expressed concern that the Office of Fair Trading had imposed requirements on this company in July 2009[2], three years previously. The Task Group were also mindful of submissions to the 2012 House of Commons Business, Innovation and Skills Committee concerning the ability of the Office of Fair Trading to respond to a very dynamic market. In particular the Debt Managers Standards Association had advised that

> "At the moment, if the Office of Fair Trading decide to put, are minded to revoke, notice on a consumer credit licence, it will probably take 12 to 18 months for that to be finally sorted out with appeals, etc. And in that time the company can still trade."[3]

6.6.3 In their submission to the Task Group the Office of Fair Trading advised that it supported the introduction of a fast-track procedure to suspend consumer credit licences.

6.6.4 On 19 July 2012, just as the Task Group concluded its work, the Government announced that Office of Fair Trading was to be given power to suspend a consumer credit licence with immediate effect where there is an urgent need to protect the interest of consumers. The power will be introduced by an amendment to the Financial Services Bill at Committee stage in the House of Lords. The Office of Fair Trading intends the consult in the autumn on how it will use this power, publishing guidance in early 2013 before the power comes into effect.[4]

Recommendation 7:

That the Cabinet notes and commends the announcement by the Government on 19 July 2012 that the Office of Fair Trading is to be given power to suspend a consumer credit licence with immediate effect where there is an urgent need to protect the interest of consumers.

6.7 Planning and the High Street

6.7.1 The Task Group considered evidence concerning the cluster of shops offering access to credit in Medway's High Streets. The Medway Citizen Advice Bureau advised that there were 23 stores offering cash for

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[1] Office of Fair Trading *Consumer Credit Group (CCG) Newsletter* March 2012 p2
[2] Office of Fair Trading *Press Release 2012 – OFT acts to revoke Yes Loans' licence* 8 March 2012
[3] Business, Innovation and Skills Committee *Debt Management* 2012 p10
[4] http://news.bis.gov.uk/Press-Releases/New-power-strengthens-consumer-credit-protection-67d53.aspx

gold/cheque cashing/loans on Chatham and Gillingham High Streets (Chatham – 12, Gillingham – 11)[1]. Reporting in The Observer Hilary Osborne had identified Chatham, along with Walthamstow in east London, as having the most payday lenders and pawnbrokers of the 13 High Streets visited[2].

6.7.2 It was noted that the Town and Country Planning (Use of Classes) Order 1987(as amended) placed uses of land and buildings into various categories called 'Use Classes'. A Use Class is a grouping together of similar land uses, for example, shops are grouped as Class A1, restaurants and cafés as A3. Class A2 covered Financial & Professional Services and included banks, buildings societies, betting shops, estate agents (financial and professional services) and loan providers.

6.7.3 Evidence provided by planning officers at Medway Council explained that, in summary, existing Medway Local Plan policies contained a presumption in favour of class A1, A2 and A3 uses in town centres and that some changes of use between different Use Classes was permitted by the Town and Country Planning (General Permitted Development) Order 1995. For example, a restaurant (Class A3) to loan provider (Class A2). The Task Group was also advised that, currently, if considering an application for a change of use to a loan provider, and the planning authority believed that in retail vitality and viability terms the use was acceptable for a class A2 use generally, then the authority would have no planning reasons for turning down an application for a loan provider.

6.7.4 The Task Group considered that powers should be given to local authorities to restrict the provision of premises for licensed consumer credit agencies within a local area in certain circumstances. It was noted, from the joint submission from the three Medway MPs, that the government had undertaken a wide ranging review of how change of use was handled in the planning system and would be consulting on the findings shortly[3].

6.7.5 Therefore, despite logistical concerns raised by the trade associations and in line with the Private Members' *Consumer Credit (Regulation and Advice) Bill* (which had failed to complete its passage through Parliament), the Task Group recommended the need to create a new 'sui generis' class under the Town and Country Planning (Use of Classes) Order 1987, which would then enable a planning authority to reconsider its local planning policies.

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[1] Evidence submitted by the Medway Citizens Advice Bureau 2012
[2] The Observer *Rising tide of poverty that is changing the face of Britain's toxic high streets* Hilary Osborne 27 May 2012
[3] Joint submission by Tracey Crouch MP (Chatham and Aylesford), Rehman Chishti MP (Gillingham and Rainham) and Mark Reckless MP (Rochester and Strood) to the Task Group

Recommendation 8:

That the Director of Regeneration, Community and Culture recommend to the Minister for Communities and Local Government and Medway's Members of Parliament that the Town and Country Planning (Use Classes) Order 1987 be amended, so that any holder of a Consumer Credit Licence which is not also regulated by the Financial Services Authority for the purpose of taking deposits, is removed from the A2 Use Class as defined in TCPUC 1987 and placed in a new category.

6.8 Use of Caps on Credit

6.8.1 Members considered the use of caps on credit, either a cap on the APR or a cap on the total cost of credit, which were used as a regulatory device in the EU and also in some states in the USA.

6.8.2 It was noted that in 2004 Policis, for the Department for Business, Innovation & Skills, had looked at the impact of interest rate ceilings in other countries.[1] Their findings showed: demand for credit appeared to be constant irrespective of the regulatory or cultural context, markets with ceilings had less product diversity and lenders may create access hurdles to high risk borrowers, and lenders may withdraw from the market where ceilings are newly imposed. The Office of Fair Trading review of the High Cost Credit Sector concluded that price controls were not a viable consumer protection tool[2] and a two-year Competition Commission inquiry into the home credit market had concluded that price caps could lead to financial exclusion, would be difficult to implement and could limit price competition. Instead, the Commission had instructed home credit providers to alter other aspects of their service provision to increase transparency for their customers and boost competition in the sector.

6.8.3 Speaking to the Task Group Fiona Hoyle from the Finance and Leasing Association advised that they had also looked at rate caps in the USA and other European countries. They reported that in France it was estimated that 4.5m residents were financially excluded because of rate caps. It was explained that firms move out of markets when not viable to lend based on caps. There was therefore the potential for unintended consequences such as limiting consumer choice and ability to get credit.[3]

6.8.4 The 2011 policy briefing *How to regulate payday lending: learning from international best practice* however cited an example concerning payday lending in Florida.[4] Florida capped the total amount that can be borrowed in any one period. Importantly the findings did not suggest that regulation and capping restricted access to credit and forced people into illegal money lenders.

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[1] Policis for Department for Business, Innovation and Skills, *The effect of Interest Rate Capping in other Countries* 2004

[2] Office of Fair Trading *Review of high-cost credit* 2010 p4

[3] Finance and Leasing Association presentation to the Task Group 2012

[4] Centre for Responsible Credit *How to regulate payday lending: learning from international best practice* 2011

6.8.5 Whilst speaking about the current Office of Fair Trading compliance review of the payday lender sector Stella Creasy advised that:

> "introducing caps on the total costs of credit will give British consumers the protection others enjoy across the world from these firms and help ensure his form of credit isn't detrimental to Britain's struggling households or our struggling economy"[1]

6.8.6 Whilst mindful that the UK and USA markets had a fundamentally different regulatory model the Task Group supported a total cost cap and noted that the Government had announced that Bristol University's Personal Finance Research Centre had been appointed to carry out research into the impact of introducing a variable cap on the total cost on the different parts of high cost credit (rather than the APR). The Task Group welcomed this study and recommended that the Council consider and respond to the Government's response to the research findings.

Recommendation 9:

That the Council welcomes the appointment of Bristol University's Personal Finance Research Centre to carry out research into the impact on consumers and business of a variable cap on the total cost of credit that can be charged in the short to medium term high cost credit market. The research is due to report in summer 2012 and it is recommended that the Council review and respond to the Government response to this research.

6.9 Payday Lending

6.9.1 This review had not intended to focus specifically on payday lending, which is one aspect of what the Office of Fair Trading in 2010 called high cost credit, and it was noted that payday lending may only represent 0.6% of the credit market.[2] As a consequence of the evidence submitted and current level of local and national interest however the following section relates specifically to the evidence considered by the Task Group in relation to the payday lending sector.

6.9.2 A payday loan is a short-term loan, designed to provide credit until 'payday', when it would in theory be paid back. Loans are available via the High Street or online. In November 2011 it was reported that 45% of the population struggled to make it to payday and when looking ahead to the next 6 months the insolvency trade body R3 reported that 7% of the population thought it was likely that they would seek a payday loan or other short-term, high interest loan. This equated to approximately 3.5 million adults[3]. This was supported by the evidence provided by the Medway Citizens Advice Bureau, which showed that of a sample of 500 Medway residents asked nearly half said they could not

[1] Submission to the Task Group from Stella Creasy MP 2012 p7
[2] Finance and Leasing Association presentation to the Task Group 2012
[3] R3 *Personal Debt Snapshot: 'Zombie' debtors emerge*, November 2011 p1

make it to payday, with 10% saying it was because of taking out high cost credit.[1]

6.9.3 The Task Group noted that for many people a payday loan was a quick and efficient legal way of getting hold of short-term credit. If the money was paid back promptly on the next payday, this type of lending can be cheaper than paying an unauthorised overdraft or a credit card charge. The Task Group heard from John Lamidey, Chief Executive of the Consumer Finance Association, which represented lenders accounting for 70% of the payday lending market, he advised that their members:

- Offer short term loans geared to the borrowing needs of customers
- Assess that customers can afford loans, and are able to repay them
- Provide clear, transparent customer contracts and communications
- Treat customers in a helpful, courteous manner and deliver high standards of service
- Maintain high levels of customer satisfaction.

6.9.4 The Task Group noted the 2012 research by YouGov, on behalf of the Consumer Finance Association, which explored the opinions of 300 customers of The Money Shop and 300 policymakers towards payday loans. It reported "sharply divergent views about payday loans"[2]. For example, it reported that 89% of customers think payday lenders explain their charges and fees clearly compared to only 12% of policy makers who think they do. The research reported that 93% of customers think payday lenders treat them with dignity and respect.[3]

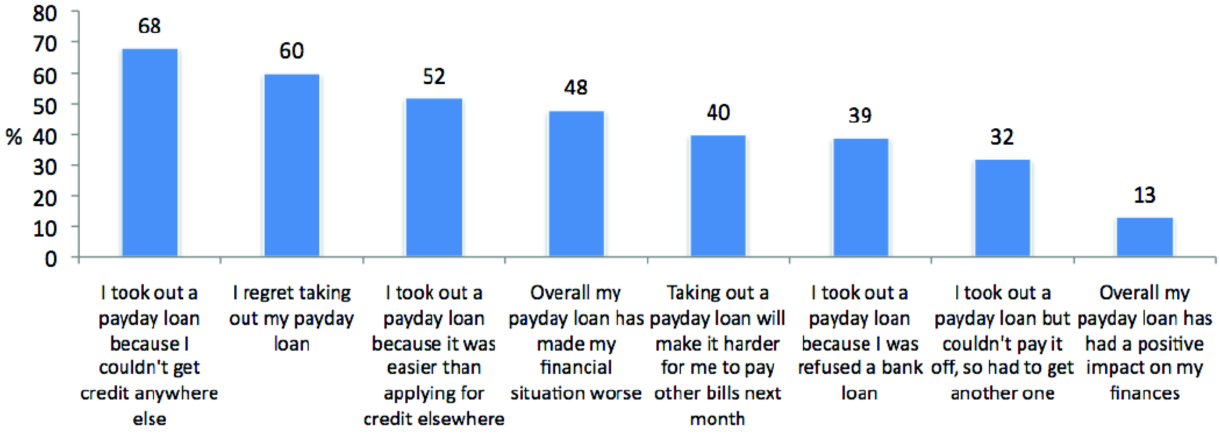
6.9.5 The Task Group also heard from Henry Raine, Head of Regulatory and Public Affairs at Wonga, who advised that company policy was to provide transparency and put the customers in control. Their business model also allowed consumers to repay their loans early without penalty and it was reported that around 25% of Wonga customers repaid before the due date. With a dedicated Hardship and Collections Team the Task Group was advised of the wish of the company to provide a good customer experience and it was reported that the company had created and continues to develop its own algorithm to assess consumers ability to payback and used multiple sources of data. This was intended to overcome circumstances where consumers had been provided unaffordable credit. The company turned down about 60-65% of applications and had arrears of around 7%. The Task Group was also advised that if consumers were unable to settle their accounts a repayment plan would be agreed and the company would freeze all interest and will stop debt collection activities.

6.9.6 Members were advised that in 2009 the payday lending industry was worth over £1.2bn. and by 2012 it was worth £2.7bn.[4] The Task Group was

[1] Submission to Task Group by Medway Citizen Advice Bureau 20 March 2012
[2] Consumer Finance Association *Attitudes Towards Payday Loans Amongst Payday Customers & Policy Makers* 2012 p3
[3] Consumer Finance Association *Attitudes Towards Payday Loans Amongst Payday Customers & Policy Makers* 2012 p3
[4] Submission to Task Group by Medway Citizen Advice Bureau 2012

concerned however that accompanying this increase had been an increase in the problems associated with this market.

6.9.7 The Task Group were concerned with research which looked at the payday loan industry as a whole, such as that provided by the insolvency trade body R3:



Base: Individuals who have taken out a payday or other short-term, high interest loan (67) [1]

6.9.8 The Financial Ombudsman Services Annual Review for 2011/2012 reported that the number of complaints received about on payday loans had risen from 59 cases in 2010/2011 to 296 in 2011/2012.[2]

6.9.9 It was noted that the Consumer Credit Counselling Service had reported a six-fold increase in the number of people approaching them with payday loan debts since 2009. By December 2011 the charity was counselling close to 1,500 clients a month with this form of credit (13% of all people seen). Overall in 2011, the Consumer Credit Counselling Service helped 17,414 clients with payday loan debts, with more than £22 million outstanding.[3]

6.9.10 The Money Advice Trust also reported to the Task Group that they now receive 1,500 calls a month concerning payday loans, compared to only a few hundred as recently as 18 months ago. They saw this growth as probably reflecting the massive growth of the industry.[4]

6.9.11 The Consumer Credit Counselling Service referred to “worrying accounts of malpractice”, with the biggest concern being the misuse of ‘continuous payment authority’, which enabled lenders to make repeated and unauthorised attempts to recover money from customer accounts. Other concerns related to inappropriate marketing as a lifestyle loan rather than as an emergency short-term cash flow, poor affordability checks, the provision of multiple loans to those who cannot afford them, the use of roll-overs and poor treatment of customers in arrears.[5]

[1] R3 *Personal Debt Snapshot: ‘Zombie’ debtors emerge*, November 2011 p3
[2] Financial Ombudsman Service *Annual Review* 2012 p57/58
[3] Submission to Task Group by Consumer Credit Counselling Service 2012 p3
[4] Submission from Money Advice Trust to the Task Group 2012 p1
[5] Submission to Task Group by Consumer Credit Counselling Service 2012 p3

6.9.12 The Task Group welcomed the launch of the payday lending compliance review by the Office of Fair Trading, which will investigate compliance with the Consumer Credit Act and the guidance on irresponsible lending[1]. Evidence would be used to inform how standards across the sector might be improved and to drive out businesses that were not fit to hold consumer credit licences. In particular, the Task Group welcomed the proposed focus on affordability checks, the targeting of particular groups, rolling over of loans and the treatment of borrowers.[2]

6.9.13 It was also noted that the trade associations had agreed to revise their codes of practice, to publish a common industry-wide Good Practice Customer Charter, to contain enhanced consumer protections. This was seen in the Government's response to the Business, Innovation and Skills Committee report *Debt Management* "as the industry's renewed commitment to strong and effective self-regulation".[3]

6.9.14 The following section summarises a number of areas that the Task Group wished the Government to consider.

- <u>Concerns over marketing and targeting of specific groups</u>

6.9.15 Members questioned the standard and regulation of advertising across the payday lending market.

6.9.16 It was noted that all adverts must comply with consumer credit regulations and that the main argument against extending regulations was that regulators already had powers to take action if necessary[4]. Fiona Hoyle from the Finance and Leasing Association when speaking to the Task Group advised that the Advertising Standards Authority paid particular attention to payday lending adverts.

6.9.17 Henry Raine, Head of Regulatory and Public Affairs at Wonga referred to entries that had been made on the Wonga website concerning the use of payday loans instead of student loans, advising the Task Group that this had been an error that had been corrected and the company did not target students.

6.9.18 The Task Group acknowledged the 2011 findings from the BIS HM Treasury *Consumer Credit and Personal Insolvency Review* that the majority of respondents (who were predominately Business and Business representatives) were not in favour of extending regulations or aligning the rules for unsecured credit to those that the Financial Services Authority applies to secured credit.[5] The Task Group however expressed concern about reports that companies

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[1] Office of Fair Trading *Irresponsible lending – OFT guidance for creditors* 2011
[2] Office of Fair Trading *Consumer Credit Group (CCG) Newsletter* March 2012 p1
[3] http://www.publications.parliament.uk/pa/cm201213/cmselect/cmbis/301/30105.htm
[4] BIS HM Treasury *Consumer credit and personal insolvency review: summary of responses on consumer credit and formal response on personal insolvency* July 2011 p32
[5] BIS HM Treasury *Consumer credit and personal insolvency review: summary of responses on consumer credit and formal response on personal insolvency* July 2011 p32

had targeted particular groups, such as the armed forces and ex-servicemen[1] or students[2] and that credit was being advertising as an easy and readily available option. It was also concerned that advertising and marketing was sometimes portraying credit as a means to promote well-being. One payday lender had recently published a blog suggesting that people could take out a loan to fund Jubilee celebrations.[3]

- Affordability Assessment – Credit Checking

6.9.19 Affordability checking is a key part of being a responsible lender, as evidenced within the Office of Fair Trading 2011 *Irresponsible Lending Guidance*. The Consumer Credit (EU Directive) Regulations 2010 requires creditors to assess consumers creditworthiness. This is based on information from the borrower where appropriate and from a credit reference agency where necessary.[4]

6.9.20 Despite requirements for creditors to check the creditworthiness of a consumer, before granting credit or significantly increasing the amount of credit, the Task Group received evidence highlighting concerns as to whether adequate assessment of affordability was always being undertaken. The Task Group noted several case studies highlighting where adequate assessments had not been made.

Summary of Case Study provided by Medway Citizens Advice Bureau

•Nearly £7,000 arrears with mortgage payments

•20 non-priority debts, including a £3,000 from one lender and nearly £1,000 from another

•Wife has kidney failure and uses dialysis machine, for which the house has been specially adapted. They were cutting back on food etc to pay their debts.

6.9.21 The Consumer Financing Association and Finance and Leasing Association advised the Task Group that their members undertook affordability assessments. The group considered evidence that showed a varied approach; with some payday loan providers using salary and basic ID validation and others using sophisticated credit and identity checks.[5] It was also noted that some payday lenders were advertising on the basis that they would not do any sort of credit checks.

6.9.22 The Task Group noted the role of credit reference agencies, which were intended to enable “lenders to quickly make fair, consistent, responsible and

[1] http://www.telegraph.co.uk/finance/personalfinance/borrowing/8884178/Legal-loansharks-are-targeting-the-military-warns-MP-for-Walthamstow-Stella-Creas.html#
[2] http://www.dailymail.co.uk/news/article-2085448/Loan-shark-firm-Wonga-targets-students-4-000-offered.html
[3] http://www.bbc.co.uk/news/uk-england-18250928
[4] Department for Business, Innovation and Skills *Regulations implementing the Consumer Credit Directive, Quick Guide* 2010
[5] Submission to Task Group by Medway Citizens Advice Bureau 2012

profitable lending decisions"[1]. It was noted that research from Which?, as reported on their website, had found that 8 out of 34 payday loan companies did not carry out credit checks as part of their approval procedure and nearly two thirds of the people surveyed were not asked about any aspect of their financial situation apart from their salary.[2] Henry Raine from Wonga advised the Task Group that he supported payday lenders undertaking credit checks and also returning data to the credit reference agencies.[3]

6.9.23 John Lamidey of the Consumer Finance Association advised that the mainstream current credit reference agencies were unable to capture the payday sector, as it had been established upon the principles of mainstream lending whose data was updated once a month. For payday lenders the whole length of the loan may be for a month. The Task Group was also advised that Consumer Financing Association members online turned down 9 out of 10 applicants, which meant they were paying for 10 credit checks with only one person suitable to lend to.[4] Mr Lamidey stated that smaller businesses could not afford the current, expensive credit checks, especially for an application for a loan of a few hundred pounds.

6.9.24 The Task Group noted that some American States had established a real-time central database where payday lenders were required to enter the details of all loans they provided. This prevented borrowers taking out multiple loans from different providers and enabled the enforcement of limit on the number of payday loans granted at any one time.[5]

6.9.25 It was noted that the Government had proposed to convene a round table with the credit reference agencies, payday trade bodies and the Office of Fair Trading to investigate the best way of ensuring lenders had proper access to credit references and such loans were recorded in consumers credit files.[6]

6.9.26 The Task Group considered that credit checking was crucial in ensuring appropriate lending and needed to include both income and expenditure levels. It was also important in terms of financial inclusion objectives to enable people with good payment records to use mainstream lenders more easily in the future. Whilst individual lenders used their own criteria when deciding whether or not to lend money they relied heavily on data supplied by credit reference agencies. Recognising that an improved system of credit referencing was reliant on providers using a consistent approach the Task Group supported the need for the Government to work with the trade associations to develop a system in the UK that provided real time information.

6.9.27 The Task Group was concerned to learn that there appeared to be some evidence of some lenders using information shared with credit reference

[1] Experian *The credit reference agency explained – A guide for consumer advisers* p3 2010
[2] http://www.which.co.uk/news/2012/05/new-which-research-exposes-payday-loan-failings-286258/
[3] Task Group discussion with Henry Raine from Wonga 2012
[4] Task Group discussion with John Lamidey from Consumer Finance Association 2012
[5] Business, Innovation and Skills Committee *Debt Management* 2012 p17
[6] http://www.publications.parliament.uk/pa/cm201213/cmselect/cmbis/301/30105.htm

agencies to discriminate against customers who had taken out payday loans when applying for mortgages.[1]

- Limits on the ability of consumers to roll over Loans

6.9.28 Related to the issue of affordability checks is the 'rolling over of loans'. Research undertaken by the insolvency trade body R3 found that a third of those who took out a payday loan could not pay it off, so had to get another one.[2]

6.9.29 This compared to research undertaken on behalf of the Consumer Finance Association, which found that the "majority of customers use payday once a year or less: only 6% use it monthly; and 28% use it once every 2-3 months".[3] Whilst this may suggest that the majority of payday loan consumers use these loans to smooth out their finances, for those who roll over their loan there is an additional charge. It was noted that when speaking to the House of Commons Business, Innovation and Skills Committee Joanna Elson from Money Advice Trust had said:

> "That is where people get stuck. They do not realise that, very quickly, they are in a big spiral"[4]

6.9.30 When speaking with the Task Group Henry Raine, Head of Regulatory and Public Affairs at Wonga advised that he thought a limit of 3 rollovers would solve a lot of problems.[5]

6.9.31 Whilst it was welcomed that the trade associations for payday lenders were revising their codes of practice, including stronger requirements on affordability assessments and credit vetting before the term of a loan was 'rolled over'[6], the Task Group remained concerned that people were using the loans to pay off other debts.

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[1] http://www.dailymail.co.uk/money/mortgageshome/article-2173443/Payday-loans-Worrying-news-million-needed-fast-cash.html
[2] R3 *Personal Debt Snapshot: 'Zombie' debtors emerge*, November 2011 p1
[3] Consumer Finance Association *Attitudes Towards Payday Loans Amongst Payday Customers & Policy Makers* 2012 p3
[4] Business, Innovation and Skills Committee *Debt Management* February 2012 p15
[5] Task Group discussion with Henry Raine from Wonga 2012
[6] http://www.publications.parliament.uk/pa/cm201213/cmselect/cmbis/301/30105.htm

- Annual Percentage Rate and Total Charge for Credit

6.9.32 Payday loans are presented using the Annual Percentage Rate (APR), which compares the cost of credit on an annualised basis. The Task Group considered the merit of APRs for comparing like-for-like products, noting that APRs were distorted by the length of loans and that the 'total cost' of any loan may be a better comparator for the consumer, especially for those taking out payday loans. It was noted that the British Bankers' Association had also questioned the use of APR to the actual term and repayment of a short-term loan, by questioning its relevance to describe the short-term nature of an arranged or unarranged overdraft:

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> "As APR compares the cost of credit on an annualised basis, the shorter the loan period (e.g. pay day loans or overdrafts) the less relevant the APR is to the actual term and repayment of the loan." [1]

6.9.33 Evidence provided by the Finance and Leasing Association suggested that consumers did not understand APRs and in 2010 the Office of Fair Trading reported, following discussions with stakeholders and a behavioural experiment, that:

> "Many consumers find APRs a confusing measure of cost and find the total repayment amount a simpler and more understandable measure"[2]

6.9.34 Henry Raine, Head of Regulatory and Public Affairs at Wonga advised the Task Group that the Wonga website sought to provide transparency by enabling consumers to choose how much they wanted to borrow and for how long, they were then shown a cost for that. He supported the use of a total charge for credit rather than APR to enable transparency in pricing.[3]

6.9.35 Members were advised that the use of APRs was however embodied in European and UK legislation. The Consumer Credit (advertisements) Regulations 2010 implemented Article 4 of the Consumer Credit Directive sets out that the cost of credit must be expressed as an APR (annual percentage rate of charge).

6.9.36 In information provided to the Task Group by the Office of Fair Trading it was stated that that it was open to creditors to include additional cost information in advertising, subject to the rules on prominence, on a voluntary basis. The Office of Fair Trading also identified that home credit lenders often included a total charge for credit, in addition to APR, following a Competition Commission's report on home collected credit.[4]

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[1] Submission by The British Bankers' Association to the Task Group, 2012 p3
[2] Office of Fair Trading *Review of high-cost credit* 2010 p 31
[3] Task Group discussion with Henry Raine from Wonga 2012
[4] Submission by the Office of Fair Trading to the Task Group 2010 p2

6.9.37 The Task Group welcomed the move by trade associations representing payday lenders to agree that their members would provide clear information to borrowers about how the loan works, the price per £100 borrowed, as well as the APR, to provide customers with the maximum possible clarity.[1]

Recommendation 10:

That the Director of Regeneration, Community and Culture recommend to the Department for Business, Innovation and Skills, whilst noting the current Office of Fair Trading review into the payday lending sector, that the Government consider introducing:

- **limits on the ability of consumers to roll over loans.**
- **further controls over marketing and curtailing the targeting of specific groups.**
- **in discussion with credit agencies and trade associations, new means to improve credit referencing, so all lenders provide real time information to credit agencies about the payment performance of customers, which in turn would assist those with good payment records to use mainstream lenders in the future and restrict the possibility of multiple loans.**
- **in discussion with trade associations the introduction of a compulsory total charge for credit per £100 or total cost of capital, in addition to the use of APR, to assist consumers in assessing whether the proposed agreement is suitable for their needs and financial situation, noting that it was being introduced on a voluntary basis.**

6.10 Banks

Promoting and encouraging bank accounts

6.10.1 The importance of the mainstream institutions in enabling access to affordable credit was demonstrated in the 2006 *Illegal Lending in the UK* report, which stated that users of illegal lending were "markedly less likely than other residents of deprived estates to have any meaningful engagement with mainstream financial services"[2].

[1] http://www.publications.parliament.uk/pa/cm201213/cmselect/cmbis/301/30105.htm
[2] DTI PFRC Policis *Illegal Lending in the UK* 2006 p8

6.10.2 The 2010 Consumer Focus report *On the Margins* identified a number of common barriers that prevented consumers taking advantage of the benefits of mainstream banking services, including language problems and existing debts. Furthermore, in their joint submission to the Task Group, the 3 Members of Parliament for Medway said:

> "encouraging mainstream banking and the number of people with a bank account is an important tool in improving the level of financial inclusion and preventing the use of less conventional means of credit"[1]

6.10.3 The British Bankers' Associations advised the Task Group that since 2003 the UK banking industry had, through 16 providers, opened over 7 million Basic Bank Accounts. These introductory accounts were normally available to any consumer that legally provided evidence of their identity and offered all the benefits of traditional current accounts but do not offer an overdraft. It was noted that the Government estimated that around 1.5 million people in the UK do not have a bank account. Many of these will instead have a Post Office Card Account that had limited functionality.[2]

6.10.4 The Task Group was also advised that the British Bankers' Association worked closely with a large number of money advice and financial capability organisations to promote access to banking services and to understand the challenges that face those who are financially excluded. Examples of this included the Basic Bank Account leaflet available from the Money Advice Service and their work with the charity *Unlock* to promote access to banking services to prisoners and ex-offenders. It was also noted that the British Bankers' Association was working with the government to consider the implications of the introduction of the Universal Credit programme for payment of benefits, which would require all benefits recipients to have a payments account.[3]

<u>The availability of short-term low value credit by the banks</u>

6.10.5 The Task Group was concerned that if High Street Banks were unwilling to provide short-term low value credit, more people will turn to high cost credit.

6.10.6 Speaking to the Task Group Henry Raine, Head of Regulatory and Public Affairs at Wonga advised that all Wonga customers had bank accounts and debit cards but had come to them, as they had been unable to get a loan. Others had also suffered from unauthorised overdrafts.[4]

6.10.7 The Task Group was advised by the British Bankers' Association that Banks provided short-term low value credit to customers via overdrafts on current accounts and through credit cards. To support consumers who wanted access to short term low value credit, but do not (or cannot) access mainstream credit

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[1] Joint submission by Tracey Crouch MP (Chatham and Aylesford), Rehman Chishti MP (Gillingham and Rainham) and Mark Reckless MP (Rochester and Strood) to the Task Group 2012
[2] Submission to Task Group by British Bankers' Associations 2012
[3] Submission to Task Group by British Bankers' Associations 2012
[4] Task Group discussion with Henry Raine from Wonga 2012

products, their members were active in advocating and supporting the services of credit unions and other social lending organisations.[1]

Overdrafts

6.10.8 The Governments desire to end unfair bank and financial transaction charges was set out within the Collation Agreement[2]. It was also noted that figures from the Bank of England showed that the average lending rate on overdrafts was 19.5%, the highest since comparable records started.[3] In the submission from Stella Creasy MP the Task Group was advised that in 2006 the Office of Fair Trading had estimated that current accounts earned banks £152 per account, totalling £8.3 billion and a third of this came from charges associated with 'unauthorised overdrafts'. She further referred to research last year which showed that customers were being charged an average 167% a year on 'unauthorised overdrafts, once fees and penalties are taken into account.[4]

6.10.9 The British Bankers' Association advised that in more than four out of five cases, customers made arrangements for an arranged overdraft in advance and the bank can have a discussion about how and when the loan can be paid back.[5]

6.10.10 In relation to unauthorised overdrafts the British Bankers' Association referred to the availability of account terms and conditions and the risk for the banks of unauthorised overdrafts, as by granting an unauthorised overdraft the bank was

> "flying blind: they don't know when the loan will be paid back; they don't know how repayments will be made and they don't know to what level the debt will rise."[6]

6.10.11 At several stages in the evidence sessions concerns were raised about the potential impact of unauthorised overdraft charges, specifically headlines such as "UK banks charging as much as 800,000% on overdrafts"[7]. John Lamidey from the Consumer Finance Association advised the Task Group that approximately 4 million people a year use unarranged bank overdrafts and new transparent charging meant many banks set fixed rates at £5 or £6 a day. He advised that:

- borrowing £200 from a payday lender and clearing the debt on day 30 for £250 the APR was 1413.1%.
- borrowing £200 on an unauthorised overdraft (where there was no requirement to show an APR) and clear the debt on day 30 for £350 the actual APR of the overdraft transaction would be 90,888.9%.

[1] Submission to Task Group by British Bankers' Associations 2012
[2] HM Government *The Coalition: our programme for government* 2010 p13
[3] http://www.telegraph.co.uk/finance/personalfinance/borrowing/9124236/Lending-rates-hit-all-time-highs.html
[4] Submission to the Task Group from Stella Creasy MP 2012 p3
[5] Submission to Task Group by British Bankers' Associations 2012
[6] Submission to Task Group by British Bankers' Associations 2012 p2
[7] http://www.bbc.co.uk/news/business-16002022

6.10.12 As reported earlier the Task Group noted that the use of APR was prescribed by the Consumer Credit Act (which in part transcribes the EU Consumer Credit Directive) and it was not mandated for overdrafts. It was also acknowledged that an unauthorised overdraft charge was for unauthorised use, whilst a payday loan was an agreed loan facility.

Recommendation 11:

That the Director of Regeneration, Community and Culture write to the main banks operating in Medway encouraging them to promote easy access to Basic Bank Accounts, as a means of encouraging the remaining unbanked into the mainstream, and highlighting the Task Group's concerns about high daily penalties for unauthorised overdrafts and that the banks should be providing affordable alternatives for customers needing to take out short term loans, with greater transparency of the fee structure and fairer charges.

6.11 Credit Unions

An Overview

6.11.1 Credit Unions in the UK are governed by the Credit Union Act 1979. Credit Unions are described by the World Council of Credit Unions as user-owned financial co-operatives that offer savings, credit and other financial services to their members. The WOCCU describes Credit union membership as based on a common bond, a linkage shared by savers and borrowers that can be based on a community, organisational, religious or employee affiliation. In the UK they are authorised and regulated by the Financial Services Authority and the Financial Services Compensation Scheme protected investments, so that the first £85,000 of savings are safe.

6.11.2 The Association of British Credit Unions' (ABCUL), the main trade association for credit unions in Britain reported the growth and strength of Britain's credit union movement. Based on figures as at 31 December 2011 it reported that there were around 405 credit unions in the UK, offering loans, savings and current accounts to more than 983,000 members, including over 119,000 junior savers. £730m was saved in British Credit Unions and £595m was out on loan to members.[1] Further information about the scale of credit union business in the UK can be found on the Small Firms Credit Unions website of the Financial Services Authority.

6.11.3 It was noted however that just 2% of people in the UK were members of a Credit Union, compared to 24% in Australia, 44% in the United States and up to 75% in Ireland[2].

6.11.4 Until recently credit unions had been restricted by all their members having a 'Common Bond'. The Legislative Reform (Industrial and Provident Societies and Credit Unions) Order 2011, which came into force on 8 January 2012, increased organisations' capacity to lend to their members, and increase the

[1] Association of British Credit Unions Limited *Facts and Statistics* http://www.abcul.org/media-and-research/facts-statistics
[2] http://www.dwp.gov.uk/newsroom/press-releases/2012/jun-2012/dwp070-12.shtml

appeal of credit unions to their local community. They are now allowed to offer membership to new groups, provide services to unincorporated associations and corporate bodies such as companies, partnerships and social enterprises. The reforms also removed restrictions on non-qualifying members (people who move house or job and leave the ‘common bond’ of the credit union) and enabled credit unions to pay interest on savings instead of an end of year dividend. ABCUL saw that these changes would enable “credit unions to reach out to many more people and use the increased flexibility to provide the services that people need.”[1]

6.11.5 In June 2012 it was announced that credit unions would receive up to £38m of investment to modernise and expand. The Minister for Welfare Reform Lord Freud said:

> “Our investment will help credit unions reach up to one million new customers providing a real alternative to rip-off interest rates from payday loans, doorstep lenders and illegal loan sharks.”[2]

6.11.6 The Task Group also noted that consideration was being given to how the credit union movement could be made available through the Post Office network, a scheme that ABCUL saw would:

> “…greatly increase competition and diversity in financial service, bolster revenue for the Post Office and dramatically improve the financial well being of millions”[3]

6.11.7 Noting the 2012 Consumer Focus report *Credit where credit’s due – The provision of credit union services through post offices*, the Task Group supported this approach, which would enable the credit union movement to utilise nearly 12,000 post offices across the UK to expand its geographical reach and customer base and thereby improve access to basic financial products, such as savings accounts and affordable credit.

6.11.8 The Task Group noted how credit unions offered low-cost financial services to their members and therefore a viable alternative source of affordable credit to ordinary bank products and other products such as payday loans or doorstep lending. By law (Credit Union Act 1979), the maximum interest rate that a credit union can charge its members for a loan is 2% per month or 26.8% APR.

6.11.9 The Task Group welcomed the news from the British Bankers’ Association that their members were active in advocating and supporting the services of credit unions and other social lending organisations. An example cited was that Barclays Bank provided back office services for a number of credit unions and Santander had created a bespoke credit scoring platform for credit unions to allow them to better assess their lending decisions.[4]

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[1] Association of British Credit Unions Limited *Policy Briefing Legislative Change for Credit Unions* 2012 p1
[2] http://www.dwp.gov.uk/newsroom/press-releases/2012/jun-2012/dwp070-12.shtml
[3] Association of British Credit Unions Limited *Policy Briefing Key Issues for Credit Unions* September 2010 p2
[4] Submission to Task Group by British Bankers’ Associations 2012

Recommendation 12:

That the Cabinet note that Credit Unions as financial institutions provide a sound and reliable source of affordable credit and welcomes the contribution made by Kent Savers Credit Union Ltd and Medway Credit Union Ltd for their part in providing a service to the Medway community.

Credit Unions in Medway

6.11.10 There are currently two credit unions serving Medway: Kent Savers Credit Union Ltd and Medway Credit Union Ltd. The Task Group meet with representatives from both Credit Unions on 17 April 2012 and were provided details as to the background and operations of these financial institutions.

- Kent Savers Credit Union Ltd

6.11.11 The Common Bond for Kent Savers Credit Union Ltd is that it is there for people living or working in Kent. Whilst based in Maidstone it was reported that members from Medway had the largest sum of loans of any area in their Common Bond and more than 12.5% of their Membership were from Medway.[1]

6.11.12 It was noted that the Kent Savers Credit Union Ltd was different from other credit unions, in that it had started with £250,000 from Kent County Council. The Task Group were given details as to a number of financial products offered by the Credit Union, such as free life savings insurance and a scheme that, in conjunction with members of the National Society of Allied and Independent Funeral Directors, provided financial assistance to those who were struggling to pay for a funeral. [2] Details were also provided of the creation of a new budgeting account for tenants receiving Local Housing Allowance; which, for an administration fee of £5 per month/per tenant (paid by the landlord) the account, provided a safe and efficient way for tenants to budget whilst providing security for landlords that they receive their rent on time.[3] Members also noted that a 3% dividend for all members savings had been awarded for the year 1 October 2010 to 30 September 2011.

- Medway Credit Union Ltd

6.11.13 It was noted that to join the Medway Credit Union Ltd members had to live or work in Rochester (south of the river), Chatham or Gillingham.

6.11.14 The Task Group received details of the significant dates in the history of Medway Credit Union Ltd and information as to the financial products offered by the Credit Union, which included the availability of a ALTO MasterCard® Prepaid card, with cash back facilities at a number of stores and a post office paying in book to aid accessibility.[4] In a subsequent submission the Task Group were advised that the Credit Union was lending regularly to their owner-

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[1] Submission from John Fowler from Kent Savers Credit Union Ltd16 May 2012
[2] Task Group discussion with John Fowler from Kent Savers Credit Union Ltd 2012
[3] Submission to Task group by Private Sector Housing and Housing Options Manager, Medway Council 2012
[4] Task Group discussion with Caroline Swift from Medway Credit Union Ltd 2012

members to assist them in operating their businesses and developments were taking place to create a "365 24/7" service.[1]

6.11.15 It was noted that the council currently provided £1,000 a year to Medway Credit Union Ltd, which was based upon a service level agreement.[2]

The role of the Local Authority

6.11.16 Evidence submitted to the Task Group highlighted that in 2008, before the recession, the Financial Inclusion Taskforce had stated that it would take 10 years for credit unions to fill the demand for affordable credit.[3]

6.11.17 A Department of Work and Pensions report in May 2012 identified that up to seven million people who currently pay a high price for borrowing could be helped by the growth of credit unions.[4] The DWP feasibility study said credit unions could help to fill the "credit gap" if they undergo a major programme of change to expand and modernise. It suggested that it could be possible to deliver the growth needed within seven to 10 years. However, Stella Creasy MP had also highlighted that:

> "According to FSA figures, credit union membership is growing by around 8% a year, but the payday lending industry is three times as big as it was two years ago." [5]

6.11.18 The Task Group takes the view that the Council should act as an 'enabler' and support the continued development of sustainable and economically viable credit unions. Whilst it recognised that the credit unions were primarily financial institutions, it also acknowledged the mutuality and social goals that underpinned the credit union movement, which made it an alternative means of providing affordable credit - their capacity to promote community cohesion, offering "a community-owned and community-based solution".[6]

6.11.19 The Task Group considered the role of local government in supporting credit unions, and were mindful of policy documents such as the 2009 New Local Government Network policy document *Circling the Loan Sharks – Predatory lending in the recession and the emerging role of local government*. The Task Group considered ways in which the Medway Council could support its local credit unions through the council's existing expertise and resources, which would also enable them to remain financially independent businesses.

- Accessibility

6.11.20 During the evidence sessions the Task Group was advised that the Medway Credit Union needed 'enabling' to help create competition on the High Street. Instead of resources Members were advised that the best way this could be

[1] Written submission from Barry Epstein to the Task Group 2012 p2
[2] Task Group discussion with Caroline Swift from Medway Credit Union Ltd 2012
[3] Submission to the Task Group from Stella Creasy MP 2012 p6
[4] DWP Credit Union Expansion Project, Project Steering Committee *Feasibility Study Report* May 2012 p8
[5] Submission from Stella Creasy MP to the Task Group 2012 p6
[6] New Local Government Network *Circling the Loan Sharks: Predatory lending in the recession and the emerging role for local government* 2009 p24

done was to help them become visible, with premises that promoted an open and accessible image.[1]

6.11.21 The Task Group noted that the quality and accessibility of premises were a significant factor in their success and also previous discussions between the credit union and the council's Social Regeneration Manager as to alterative locations.[2]

Recommendation 13:

That the Social Regeneration Manager work with the Medway Credit Union Ltd to seek a suitable High Street location within the Medway area.

- Business development and training and Networking

6.11.22 The Task Group were provided with details as to the service level agreement between Medway Council and Medway Credit Union Ltd and the actions agreed for 2011-2012.[3] The Task Group wished council officers to consider what support could be provided or guidance given to help the credit unions increase their membership numbers, in areas such as business development and training. It was felt officer expertise could be used to help facilitate contacts across Medway and seek support to both raise their profile, so to attract new members (especially in the areas outside of the main town locations) and also generate volunteers with a financial background.

Recommendation 14:

That the Director of Regeneration, Community and Culture invite Kent Savers Credit Union Ltd and Medway Credit Union Ltd to work with officers from the Regeneration, Community and Culture Directorate to develop an action plan exploring how assistance can be provided or guidance given with business development and training to enable the credit unions to seek support from local organisations, institutions and businesses to both raise their profile, to attract new members (especially in the areas outside of the main town locations) and generate volunteers with a financial background.

- Publicity

6.11.23 During the evidence sessions it was highlighted that for consumers to make informed decisions they needed to be aware of what was available and John Fowler from Kent Savers Credit Union Ltd highlighted the importance of people understanding what credit unions were about. For example, if they had started saving with a Credit Union then they could borrow money for a lot less. The Task Group was advised however of limited success through expensive marketing campaigns.[4]

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[1] Task Group discussion with Caroline Swift from Medway Credit Union Ltd 2012
[2] Task Group discussion with Caroline Swift from Medway Credit Union Ltd and Clem Smith Head of Economic Development and Social Regeneration at Medway Council 2012
[3] Submission from the Social Regeneration Manager to the Task Group 2012
[4] Task Group discussion with John Fowler from Kent Savers Credit Union Ltd 2012

Recommendation 15:

That the Assistant Director Communications, Performance and Partnerships invite Kent Savers Credit Union Ltd and Medway Credit Union Ltd to work with officers within the Business Support department to publicise the contribution of the Credit Unions through the council's communication channels, including Medway Matters, and the Council's website. This is to explain what Credit Unions are, the benefits and risks of joining a Credit Union and how people could join.

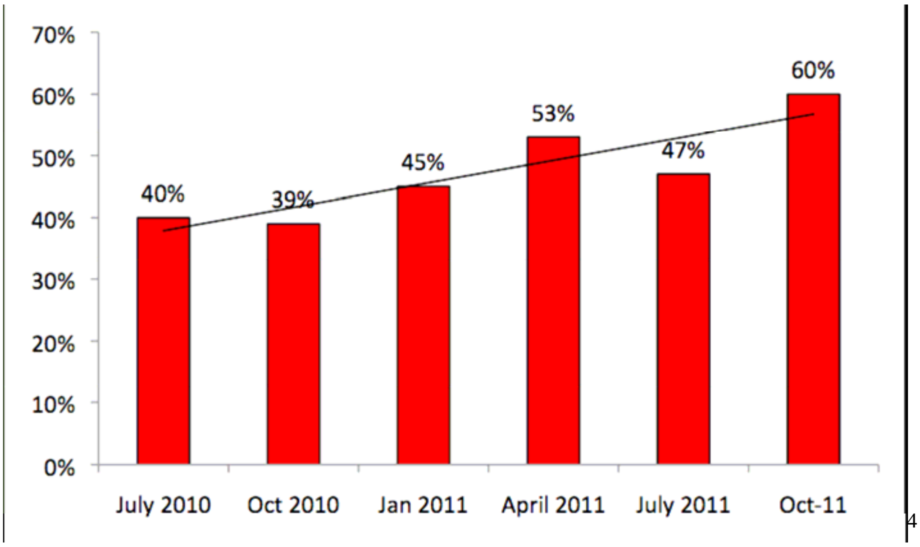
- Non-domestic rate relief

6.11.24 The Task Group noted that discussions were ongoing between the Medway Credit Union Ltd and officers at Medway Council, as to possible assistance that could be provided with regard to non-domestic rate relief. The Task Group wished that officers continued to work with the Credit Union to ensure they were receiving the correct level of relief.

6.12 The Importance of Debt Advice

6.12.1 The Task Group heard how timely access to debt advice was vital for those in financial difficulty. Often described as a "distress purchase"[1] it was important that consumers knew where to go for appropriate advice and that this was taken at an early stage, especially "before they reach crisis point and to prevent them from escalating"[2]. It was however of concern to the Task Group that the Money Advice Trust had reported that consumers did not shop around for debt management services, which could have a lasting impact on their lives.[3]

6.12.2 In relation to the level of debt concerns the insolvency trade body R3 has reported that three in five had concerns about the current level of debt. This was up 21% points over the previous year:



[4]

[1] BBC *MPs urge action on rogue debt firms* http://news.bbc.co.uk/democracylive/hi/house_of_commons/newsid_9652000/9652180.stm 2011
[2] Citizens Advice Bureau *General Debate relating to debt advice and debt management services*, 2011 p2
[3] Business, Innovation and Skills Committee *Debt Management*, 2102 p4
[4] R3 *Personal Debt Snapshot: 'Zombie' debtors emerge*, November 2011 p2

6.12.3 The Legal Services Research Centre demonstrated the impact in the 2007 research report *A Helping Hand: The Impact of Debt Advice on People's Lives*[1]. This confirmed the impact that debt problems can have on people's lives, bringing about ill-health, relationship breakdown, loss of employment, as well as distressing impacts on parents' relationships with their children. The report advised that

> "40% of debt problems were reported to have led to physical or stress-related ill-health, of which slightly more than half also led reportedly to GP visits"[2]

6.12.4 The Legal Services Research Centre research report also indicated the positive impact that debt advice had on people's level of anxiety, general heath, relationships and housing stability.

6.12.5 A 2011 report from the Centre of Social Justice contained an estimate that debt advice could save the National Health Service around £30 million[3]. The Department of Health had also identified face-to-face debt advice as a means to broadening the approach to tackle wider social determinants and consequences of mental health problems.[4]

Recommendation 16:

Recognising the concern and impact of debt on Medway resident's health and wellbeing, together with the need for co-ordinated advice and support services, the Task Group recommended to Cabinet that a copy of this review report be submitted to Medway's Health and Wellbeing Board for consideration.

6.12.6 In the 2011 *Consumer Credit and Personal Insolvency Review* all groups responding recognised that if a lender had evidence to suggest that an individual was beginning to struggle with repayments, they should intervene as soon as possible to direct to a reputable debt advice provider. It was also acknowledged that most providers were already proactive with this.[5] As part of the submission from the British Bankers' Association they advised that their members were committed within their Lending Code to acting proactively to helping customers who were experiencing (or at the risk of experiencing) financial difficulty. They also advised that this year banks would contribute over £40 million towards the provision of free debt advice services.[6]

[1] http://www.justice.gov.uk/downloads/publications/research-and-analysis/lsrc/2007/Impact.pdf?type=Finjan-Download&slot=000003F0&id=000007EF&location=0A64420B
[2] Legal Services Research Centre *A Helping Hand: The Impact of Debt Advice on People's Lives* 2007 p7
[3] Centre for Social Justice *Completing the revolution: Transforming mental health and tackling poverty* 2011 p61
[4] Department of Health, *No Health Without Mental Health: A Cross-Government Mental Health Outcomes Strategy for People of All Ages* 2011 p67
[5] BIS HM Treasury *Consumer credit and personal insolvency review: summary of responses on consumer credit and formal response on personal insolvency* July 2011
[6] Submission to Task Group by British Bankers' Associations 2012 p3

6.12.7 The Task Group noted that in addition to the benefits to the consumer, the provision of quality debt advice had benefits for lenders; such as through reduced administration costs. This 'mutual benefit' is highlighted by the evidence that in 2011 the Consumer Credit Counselling Service helped in excess of 370,000 borrowers, managed over £3.7 million billion worth of debt and helped clients repay £311 million to creditors, local authorities and government.[1]

Recommendation 17:

That the Assistant Director Communications, Performance and Partnerships should ensure via all its communication channels that there is a consistent message based upon early contact and intervention and support for good quality, independent debt and money advice.

This should provide clear advice on the types of debt and the importance of addressing priority debts first. Consumers should be made aware of the difference between seeking free advice and turning to commercial debt management companies and signposted to organisations such as the local Citizens Advice Bureau, Consumer Credit Counselling Service, the Money Advice Service, the Money Advice Trust and National Debtline, which provide free financial health checks and advice and information for consumers before and after they take out credit.

6.12.8 During the evidence sessions the Task Group touched upon work undertaken by officers across Medway Council, noting how this subject matter impacted on the Children and Adults Directorate, Regeneration, Community and Culture Directorate and the Business Support Department. The Task Group therefore considered the role of officers, who came into contact with vulnerable and financially fragile residents, in being able to signpost debt advice services.

Recommendation 18:

That the Assistant Director Communications, Performance and Partnerships includes within The Headlines, the council's internal electronic newsletter, key information and contacts for staff to support residents in relation to the provision of free debt advice from organisations such as the Citizens Advice Bureau, Consumer Credit Counselling Service, the Money Advice Trust and National Debtline.

[1] Submission to Task Group by Consumer Credit Counselling Service 2012 p1

6.13 Debt Advice and Debt Management Services

6.13.1 The evidence considered by the Task Group illustrated how the sector was broadly split between: those providing free debt advice and those offering fee-charging debt management services. Details of these are set out below.

- Free Debt Advice

6.13.2 It was noted that consumers looking for debt advice can contact free advice services and the website www.direct.gov.uk provided information of many organisations offering free and independent advice to help consumers with information. Through these organisations advice was available over the phone, online or in person 24 hours a day, seven days a week to people in any location.

6.13.3 The Money Advice Trust, according to their demand and capacity research, estimated that 1.7 million people would be helped by free debt advice agencies this year[1] and the Consumer Credit Counselling Service stated that:

> "Each year our debt counselling experience helps around 400,000 people with their debt problems, with over 100,000 on a debt management plan."[2]

6.13.4 Innovations in the provision of debt advice included My Money Steps, (an on-line debt advice tool) and CASHflow, which had been developed by the Money Advice Trust in partnership with the credit industry. This was a self-help debt advice toolkit that benefit people in debt, as well as freeing up the valuable resources of advice agencies.[3] The Consumer Credit Counselling Service further advised that their counselling process allowed

> "people to create a sustainable budget, reducing their outgoings and increasing their income (often after having unclaimed benefits identified for them by our Welfare Benefits Centre), freeing up money to meet priority debts and credit commitments"[4]

6.13.5 The Task Group were also advised of a number of projects provided locally by the Medway Citizens Advice Bureau (see paragraph 6.15.4) and also future projects, including College Advice Hubs, High Street Tours and Responsibility Contracts - reflecting that the relationship between the consumer and the advice bureau as a 'two-way street'.[5]

Recommendation 19:

That the Council welcome the free debt advice provided by organisations such as Medway Citizens Advice Bureau, the Consumer Credit Counselling Service and Money Advice Trust which provide a range of advice access points.

[1] Submission by Money Advice Trust to the Task Group 2012 p1
[2] http://www.cccs.co.uk/?WT.srch=1&WT.mc_id=200001&gclid=CN7i6PWu3K8CFUkMtAodLGnWBA
[3] http://www.moneyadvicetrust.org/section.asp?sid=28
[4] Submission to Task Group by Consumer Credit Counselling Service 2012 p1
[5] Submission from the Medway Citizens Advice Bureau to the Task Group 2012

The coordination of debt advice: the new role of the Money Advice Service

6.13.6 It was noted that the Money Advice Service, set up by the Financial Services Act 2010 to deliver the 'public awareness' objectives that had previously been a responsibility of the Financial Services Authority, also delivered free unbiased advice to help people manage money better.

6.13.7 Following the Government's response to the Consumer Credit and Personal Insolvency Review the Money Advice Service will take on responsibility for the coordination of debt advice services. The aim being to offer a coordinated, flexible and cost-effective solution to consumers' debt advice needs from 2012-13 onwards, as well as leading on setting service standards and securing funding from the financial services sector.[1] It was noted that organisations such as the Money Advice Trust[2] and Consumer Credit Counselling Service[3] welcomed the central co-ordination of advice and that the Money Advice Service were now conducting research to develop a new model by the end of 2013 that improves the delivery of debt advice and is sustainable for the longer term.[4] Within the Money Advice Service business plan for 2012/13 is a commitment to provide funding of more than £30m to the free debt advice sector across the UK in 2012/13. The Task Group hoped that this co-ordinated role would result in the sustainable delivery of debt advice.

- Commercial Debt Management Companies

6.13.8 Commercial debt management companies provide fee-charging debt advice and debt management services. These companies provide formal debt management solutions and charge their clients upfront fees and ongoing management charges.

6.13.9 It is this form of debt advice and management that raised most concern during the evidence gathering stages, principally relating to the quality of advice and the charging of fees.

6.13.10 In 2010 the Office of Fair Trading published a compliance review with their *Debt Management Guidance,* that had set out minimum standards for those consumer credit licensees that provide debt management services. This review reported widespread non-compliance with the guidance by debt advice and debt management licensees, with misleading advertising as the most significant area of non-compliance.[5]

6.13.11 The Task Group noted that following the compliance review the Office of Fair Trading had issued 129 warnings to debt management businesses and since then 87 business had exited the market (voluntarily or as a consequence of enforcement action) and a further 67 warning letters had been issued.[6] Furthermore, the Financial Ombudsman Service's Annual Review for

[1] The Money Advice Service *A better Deal for Everyone: A New Approach to Debt Advice* 2012
[2] Submission from the Money Advice Trust to the Task Group 2012
[3] http://www.cccs.co.uk/Portals/0/Documents/media/pressreleases/Press_release_CCCS_response_to_MAS_statement.pdf
[4] http://www.moneyadviceservice.org.uk/about/mediacentre/corporatenews/article.aspx?a=20110719_debt
[5] http://www.oft.gov.uk/shared_oft/business_leaflets/credit_licences/OFT1274.pdf
[6] Office of Fair Trading *OFT issues new debt management guidance* Press Release 2012 http://www.oft.gov.uk/news-and-updates/press/2012/21-12

2010/2011 had reported that they continued to receive complaints about fee-charging "debt management" businesses, including complaints relating to poor explanations and lack of clarity as to what consumers were signing up for - leading to unexpected charges and disappointment - and also complaints relating to delays and poor administration when passing on payments to creditors.[1]

6.13.12 In the response to the 2011 Consumer Credit and Personal Insolvency Review there were also some concerns that some commercial advice providers steered individuals towards a particular solution that was aimed at generating income for the provider rather than the best solution for the debtor.[2]

6.13.13 The Consumer Credit Counselling Service advised the Task Group that fee charging debt management companies made £250m a year from borrowers[3] and the Money Advice Trust reported that many companies charged fees of around 17% of all payments which can add years to the repayment process[4].

6.13.14 Further comment concerning the industry was submitted to the House of Commons Business, Innovation and Skills Committee. Their report, published in February 2012, included comments such as those from Which?, that accused the industry of "mis-selling, cold-calling, mis-leading advertisements and inflated claims".[5] Equally, it was noted that the Debt Managers Standards Association, representing 18 debt management companies had spoken to the Business, Innovation and Skills Committee about its members and what was being done to improve standards, such as independent audit and compliance monitoring. The evidence illustrated that not all debt management companies will be bad.

6.13.15 The Task Group noted and welcomed that revised *Debt Management (and credit repair services) guidance*[6] had been issued by the Office of Fair Trading in March 2012. In a press release accompanying the launch of the new guidance David Fisher, Director of the Office of Fair Trading Consumer Credit Group, said:

> "This new guidance clearly sets out the standards we expect from debt management businesses. All too often it may be particularly vulnerable consumers who fall victim to poor quality debt advice and we will continue to take action against businesses that fail to follow our guidance."[7]

6.13.16 The revised guidance included examples of unfair or improper practices that if a debt management company were to engage in, could mean that they were no longer eligible to hold a consumer credit licence. This included inappropriate financial incentives for staff giving debt advice and also false or misleading claims regarding the status of the business. An overall theme of the new

[1] Financial Ombudsman Service *Annual review of Consumer Complaints* 2011p 50
[2] Department for Business, Innovation and Skills/HM Treasury *Consumer credit and personal insolvency review: summary of responses on consumer credit and formal response on personal insolvency* 2011 p17
[3] Written submission from Consumer Credit Counselling Service to the Task Group 2012 p7
[4] Written submission from Money Advice Trust 2012
[5] Business, Innovation and Skills Committee *Debt Management* 2012, p28
[6] Office of Fair *Trading Debt Management (and credit repair services) guidance* March 2012
[7] http://www.oft.gov.uk/news-and-updates/press/2012/21-12

guidance was for transparency so that consumers have all the information necessary to make informed decisions about the most appropriate debt solutions for them given their financial circumstances. Furthermore, licensees should ensure they have effective mechanisms to identify and deal with particularly vulnerable clients, such as those with mental health issues and/or with mental capacity limitations.[1]

6.13.17 In addition to the new *Debt Management Guidance* the Task Group hoped that when developing the model for Financial Conduct Authority regulation that sufficient resources and powers were put in place to protect vulnerable consumers with this “distress purchase”.[2]

Recommendation 20:

That the work and guidance issued by the Office of Fair Trading concerning debt management businesses be welcomed but the Director of Regeneration, Community and Culture recommend to the Office of Fair Trading that further consideration be given to address continued concerns regarding fee-charging “debt management” businesses.

6.14 Debt Remedies

6.14.1 There are a number of debt remedies available for consumers dealing with both priority debt (debt that will have serious consequences if not paid, such as mortgage or rent debts) and non-priority debt.

6.14.2 The Task Group received evidence explaining that remedies included consumers dealing with creditors direct (the Medway Citizens Advice Bureau advised that most people did not realise that most lenders would look at a repayment plan[3]), asking a debt management company to deal with creditors, applying for an Administration Order, applying for an Individual Voluntary Agreement, consolidating debts, and, if there is no money left to pay off debts, asking creditors to write off debt, Debt Relief Orders and applying for bankruptcy. There were advantages and disadvantages of each of these options.

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[1] Office of Fair *Trading Debt Management (and credit repair services) guidance* March 2012 page 15.
[2] MPs urge action on rogue debt firms http://news.bbc.co.uk/democracylive/hi/house_of_commons/newsid_9652000/9652180.stm
[3] Submission to the Task Group by Medway Citizens Advice Bureau 2012

6.14.3 The following case study provided by the Consumer Credit Counselling Service demonstrated the importance of quality advice and stressed how financial and personal circumstances can leave people vulnerable to mis-selling.[1]

Case Study – Provided by Consumer Credit Counselling Service

A Consumer Credit Counselling Service client was struggling to repay his credit card debt with a high street bank and asked them for help. The bank proceeded to recommend a consolidation loan for the client, even though he was 76 years old, severely disabled, and in receipt of disability benefits.

The man needed to have ongoing personal care due to multiple health concerns. However, he was not able to receive this care as had been repaying his consolidation loan instead. The repayments increased from approximately £220 monthly when paying the credit card, to £390 monthly when paying for the loan.

The man was unable to maintain loan payments and was forced to use his credit card again and his balance on this rose to £8,000 on top of the loan amount owed.

Being unable to pay for essential ongoing care the man has had two accidents which have caused severe nerve damage in his arm, which means he can no longer play the piano (he was formerly a paid musician) and also a head injury.

Debt Management Plans

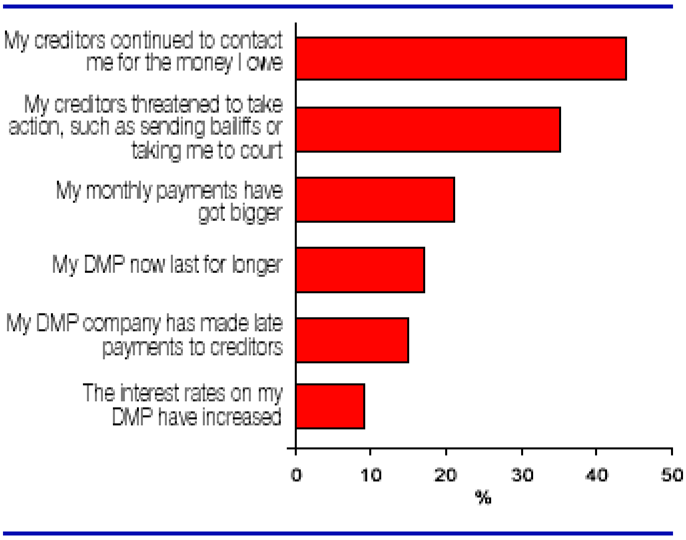
6.14.4 During the course of their evidence gathering the Task Group heard details as to specific the operation of Debt Management Plans.

6.14.5 Debt Management Plans are voluntary agreements between the consumer and their creditors to deal with non-priority debts. A debt management company will arrange the plan. The consumer makes regular payments to the organisation that establishes and administers the management plan, who in turn distributes the money between the various creditors. Often the consumer will pay for a Debt Management Plan, although the Task Group heard from the Consumer Credit Counselling Service who in 2011 had set up 24,000 Debt Management Plans for free, enabling their clients to repay £311 million in unsecured debt. It was noted that the Consumer Credit Counselling Service was funded by contributions from the credit industry.[2] PayPlan is another organisation that provides free-to-client debt management plans. Free debt advice agencies will refer clients where appropriate to free-to-client debt management providers.

6.14.6 In 2010 research by the insolvency trade body R3 reported that whilst most Debt Management Plans operated to an acceptable standard their research had found concerns as to: a lack of impartial advice; unfeasible, unworkable Debt Management Plans, and the ability for Debt Management Plans by virtue of their flexibility to be extended or for payments to be increased. They reported that 35% of individuals in a Debt Management Plan said that other options for dealing with their debt, such as an Individual Voluntary

[1] Written submission from Consumer Credit Counselling Service to the Task Group 2012
[2] Written submission from Consumer Credit Counselling Service to the Task Group 2012

Arrangement or bankruptcy had not been discussed with them.[1] The following chart also illustrates a number of practices that the research had found once the Debt Management Plan had started



Source: R3/ComRes Personal Insolvency Research Project January 2010 [2]

6.14.7 The following table included within the submission from the Consumer Credit Counselling Service[3] demonstrates the difference to an individual opting to use a fee-charging firm to repay their debt:

Repayment of £30,000 at £300 per month under a DMP		
	Fee-charging debt management company	**Consumer Credit Counselling Service**
Client debt	£30,000	£30,000
Monthly repayment	£300	£300
Upfront fees	£600	-
Monthly fees	£45	-
Term of DMP	9 years, 9-10 months (117-118 months)	8 years, 4 months (100 months)
Total repaid (including fees)	£35,894	£30,000
Notes: 1. Fee charging company assumed to charge start-up fee equivalent to two months' payments and ongoing monthly fee equivalent to 15% of payments. 2. Term assumes full repayment of £30,000 loan principal based on total monthly payment (including any fees) of £300 per month. 3. Term assumes monthly fees deducted. Allowing for up-front fees of two months' gross payments adds a further two months to the DMP term for the fee-charging company.		

[1] R3 *Debt Management Plans* 2010
[2] R3, *Debt Management Plans* 2010 p2
[3] Written submission from Consumer Credit Counselling Service to the Task Group 2012

6.14.8 In response to questions the Consumer Credit Counselling Service and Money Advice Trust advised that they were in favoured the introduction of a statutory debt management plan scheme to standardise and raise the quality of service provided by debt management companies. The Citizens Advice Bureau had also expressed its support for the Government to implement a statutory debt management plan scheme, seeing it

> "as an opportunity to build a more coherent, more accessible and effective system for helping people in financial difficulties to deal with their debts."[1]

The Citizens Advice Bureau referred to the Tribunal Courts and Enforcement Act 2007, which set out framework legislation for a Statutory Debt Management Plan.

6.14.9 The Task Group noted the news that Norman Lamb, Minister for Consumer Affairs would chair the initial industry-wide meeting to discuss the feasibility of a Debt Management Plan Protocol (rather than a statutory debt management plan), which would aim to improve industry standards by ensuring that plans are sustainable and in the best interests of all parties.[2] In the Government's response to the Business, Innovation and Skills Committee's report *Debt Management* it was noted that consideration was being given as to what the protocol would cover

> "from ensuring that DMPs are priced in such a way as to ensure sustainability and to demonstrate they are the most appropriate remedy, to what reassurances creditors need to ensure that interest and charges on overdue accounts are frozen."[3]

6.14.10 The Task Group supported the views of the Consumer Credit Counselling Service that a statutory debt management plan would benefit consumers in 2 ways:

1. It would mean that those seeking to repay their debts despite adverse financial circumstances would be guaranteed a freezing of interest and charges to stop debts from growing and repayment periods from becoming unreasonably long.
2. A Statutory Debt Management Plan offered the possibility of extended "breathing space" to people looking to get back on their feet after a temporary income shock, such as losing their job.[4]

Recommendation 21:

That the Director of Regeneration, Community and Culture request that the Department for Business, Innovation and Skills introduce regulation, including transparent costings of service, in relation to statutory debt management plans in order to standardise and raise the quality of service provided by debt management companies.

[1] Citizens Advice Bureau General *debate relating to debt advice and debt management services* 2011p8
[2] http://www.publications.parliament.uk/pa/cm201213/cmselect/cmbis/301/30105.htm
[3] http://www.publications.parliament.uk/pa/cm201213/cmselect/cmbis/301/30105.htm
[4] Written submission from Consumer Credit Counselling Service to the Task Group 2012

6.15 Financial Fitness and Financial Literacy

6.15.1 In addition to the general debt relating to debt advice and debt management services the Task Group considered the importance of people being able to manage their money, plan for the future and cope with financial pressure.

6.15.2 The 2011 Department for Business, Innovation and Skills/HM Treasury *Consumer Credit and Personal Insolvency Review* identified when looking at access to debt solutions that many respondents considered that better financial education was needed to ensure that consumers were better placed to understand fully the implications of taking on credit and to make a realistic assessment of their ability to repay.[1]

6.15.3 Recognising the importance of fostering a responsible attitude to borrowing and saving the Task Group considered the availability of support both locally and nationally. This was especially important for those unable to obtain affordable credit that may need advice on how to budget more effectively.

6.15.4 Examples included:

- the Medway Citizen Advice Bureau running a Financial Fitness Programme, which was "designed to empower local people with the knowledge and confidence to manage their money"[2]. The courses were tailored to suit the needs and level of understanding of the participants and the programme adopted a holistic approach to help the whole family – from children to grandparents.
- Midkent college advised that the college provided a range of support activities that provided students with the opportunity to develop financial awareness. This included staff being trained to be able to offer support and to design and run targeted financial literacy tutorials.[3]
- The Medway Youth Trust advised that the Trust was currently doing some work on financial literacy for vulnerable groups, such as teenage parents.
- The Money Advice Service, as an example of a national contributor, supported people to manage their money better. The Money Advice Service *2012/13 Business Plan* sets out their strategic objectives of enhancing public understanding and knowledge of financial matters (including the UK financial system) and enhancing the ability of members of the public to manage their own financial affairs. It also refers to a service that will be "designed to move people towards making decisions and taking the next steps towards financial control and planning."[4]

6.15.5 When speaking to the Task Group the Social Regeneration Manager gave details of a number of social regeneration schemes, under the three strategic aims of the Social Regeneration Strategy. It was explained that this entailed a programme of action to empower Medway's more disadvantaged residents by improving community wellbeing and strengthening access to local services via neighbourhood outreach. One of the schemes under this aim was Project CYC, a new programme of detached youth work and youth development outreach in

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[1] Department for Business, Innovation and Skills/HM Treasury *Consumer credit and personal insolvency review: summary of responses on consumer credit and formal response on personal insolvency* 2011 p8
[2] Submission to Task Group by Citizens Advice Bureau 2012
[3] Submission to Task Group from MidKent College 2012
[4] Money Advice Service *2012/13 Business Plan* 2012 p1

Strood, Central Chatham and Gillingham, and the Task Group discussed the potential to introduce a session about debt issues into the project.

Recommendation 22:

That the Social Regeneration Manager seeks to introduce a session about debt issues into the new Project CYC that will run informal education vocational development at outreach centres.

6.16 Financial Education

6.16.1 The Task Group considered the availability, as well the need and impact, of financial education. Whilst young people were unable to access credit they were making financial decisions and developing attitudes to managing money, they were also an important target for advertising and marketing. This was a point reflected in the comment of Dan McDonald, Chief Executive at Medway Citizens Advice Bureau:

"We should be doing financial literacy in schools at a very early age - we need to break a generation of debt."[1]

6.16.2 Credit Action, a financial education and advocacy charity with experience of offering financial education in school, provided evidence to the Task Group demonstrating the need for and positive impact of financial education in schools. Their submission included reference to

- a lack of financial capability as a contributing factor in debt particularly amongst young people;
- 10% of 18-19 year olds contacting the Consumer Credit Counselling Service for help in 2010 blamed a lack of budgeting for their problems;
- research findings that those who attended high schools in the US, where financial education is mandatory, saved a greater amount in their adult life
- 84% of those that had completed Credit Action's DebtCred programme at Key Stage 3 and 4 felt more confident with dealing with money matters. 82% felt they would be better able to keep their finances under control and 78% said the programme had taught them news skills to manage money.[2]

6.16.3 The Task Group noted that there was no statutory requirement to teach personal finance education in England. Personal finance education had however been introduced as an element of the Personal, Social, Health and Economic (PSHE) education framework; a programme of learning designed to help learners develop the knowledge, understanding and skills they need to manage their lives now and in the future[3].

6.16.4 In 2010, the Ofsted report on *Personal, Social, Health and Economic (PSHE) education in schools*[4] revealed that schools had not got to grips with the economic wellbeing and financial capability strand of PSHE. The take up and

[1] BBC *News Money lending shop ban bid by Medway councillor* 12 January 2012
[2] Submission from Credit Action to the Task Group (incorporated within submission from Consumer Credit Counselling Service) 2012 p8
[3] http://www.pshe-association.org.uk/content.aspx?CategoryID=335
[4] Ofsted *Personal, social, health and economic education in schools*, 2010

effectiveness of financial education in schools was influenced by the fact that it was a non-statutory subject, which meant that provision could vary between schools.

6.16.5 The Task Group sought evidence from a number of sources, including Medway's secondary school Headteachers, to ascertain the current level of financial literacy provision in Medway.

6.16.6 The Task Group was advised of examples of existing practice. This included personal and social education schemes from years 7 to 11 at The Hundred of Hoo School, which also offered a level 2 finance course in the 6th form. It was also noted that the IFS School of Finance provided GCSE, AS and A-Level equivalent qualifications in personal finance. Nine schools in Medway offered their students the opportunity to take this qualification.[1] Silverbank Park, a secondary pupil referral unit, also advised that PSHE was provided part of the curriculum and taught as a lesson to all pupils.

6.16.7 The Task Group canvassed the views of the Medway Youth Parliament, seeking to understand their experiences of financial education in schools and whether this was considered adequate or beneficial and what improvements could be made to ensure the youth of Medway had the skills and confidence to manage money effectively. Members were advised, echoing the findings of the 2010, Ofsted report on *Personal, Social, Health and Economic (PSHE) education in schools*, that provision appeared patchy, resulting in mixed experiences and variable levels of understanding. One Member of the Youth Parliament said that "financial education needed to be more regular, in more detail and earlier". They also considered that financial education should cover mobile phone contracts and the risk of identity fraud.

6.16.8 The Task Group noted the national campaign seeking to make financial education compulsory in schools, as a means of ensuring that young people were able to develop the knowledge and skills that were essential to managing their finances in the future. In Parliament the All Party Parliamentary Group on Financial Education for Young People currently had support from over 200 MPs, with a debate having taken place in the House of Commons in December 2011 following the e-petition launched by moneysavingexpert.com. It was also noted that, in response to Martin Lewis's open letter to making financial compensation compulsory in schools, the Prime Minister as well as recognising the role of parents in helping young people to become financially aware had acknowledged that:

> "It is true that young people should have access to good quality personal finance education, so that they leave school with the knowledge and confidence to manage their money effectively"[2]

[1] Medway Messenger *Learn how to manage finances* 18 June 2012 p7
[2] http://www.moneysavingexpert.com/news/banking/2012/01/prime-minister-responds-to-financial-education-calls

6.16.9 Responding to a question as to whether they would support a move to have compulsory "finance literacy" education delivered in schools Medway's 3 MPs had advised:

> "Financial education is currently part of the personal, social, health and economic education syllabus for key stages 1 to 4 and it is vital that young people leave school with an understanding of the financial pressures they may face as an adult. While we have reservations about making financial education compulsory, it is clear that what is taught must be delivered to a higher standard, and should include a greater emphasis on alternative credit providers, such as credit unions. Also, apart from schools it has to be welcomed that other voluntary and church organisations are already providing financial advice"[1]

6.16.10 Members considered the 2011 report of the All Party Parliamentary Group (APPG) on Financial Education for Young People *Financial Education and the Curriculum*. The APPG had undertaken a UK wide inquiry into the level of financial education in schools in order to establish a consistent and sustainable model for educating future generations. The report had recommended that personal finance education should be compulsory on every school's curriculum with the ability for outside organisations to provide resources. A number of specific recommendations were made for primary and secondary education.

6.16.11 Whilst acknowledging that a potential barrier to successful financial literacy was pressure on the curriculum the Task Group noted that the Government was currently reviewing the National Curriculum. In order to translate the advantages and support for financial education, as outlined above, into effective provision the Task Group recommended that the Council should lobby the Secretary of State for Education to make financial education compulsory.

Recommendation 23:

That the Director of Children and Adults, recognising the importance of all young people and children receiving education on personal finance and how to avoid unnecessary debt and the dangers of falling into a debt spiral, recommend to the Secretary of State for Education as part of the review of the National Curriculum that the financial education elements of PSHE should be made compulsory in primary and secondary education.

6.16.12 The Task Group recognised that Medway's academies generally had the freedom to design their own curriculum to meet their pupils' needs, aspirations and interests. It also noted the findings of the 2008 Ofsted report *Developing Financially Capable Young People*[2] *and* the 2011 APPG report *Financial Education and the Curriculum report* which found that the key factors underpinning the successful development of personal finance education in schools was commitment among the senior management and the use of a school champion to ensure the achievement of outcomes. The Group therefore

[1] Joint submission by Tracey Crouch MP (Chatham and Aylesford), Rehman Chishti MP (Gillingham and Rainham) and Mark Reckless MP (Rochester and Strood) to the Task Group 2012
[2] Ofsted *Developing financially capable young people* 2008

recommended that the advantages of including financial literacy as part of their curriculum be stressed to Chair of Governors and Head Teachers of all primary and secondary schools in Medway, identifying the importance of identifying a school champion to ensure the achievement of outcomes.

Recommendation 24:

That the Director of Children and Adults write to the senior leaders of all primary and secondary schools/academies (including special schools) in Medway highlighting the advantages of including financial literacy as part of their curriculum and identifying the importance of appointing a school champion to ensure the achievement of outcomes.

6.16.13 Acknowledging the current need to support schools the Task Group considered the role of the Local Authority in both supporting and encouraging all of Medway's schools to include financial literacy as part of their curriculum, covering high-cost credit products as well as mainstream financial products. As an example the Commercial Services Manager advised the Task Group of the WiseGuys.org.uk website, which had been established by East Sussex County Council. This site provided information to help make smart decisions when buying goods or services, as well as advice on what to do when something has gone wrong. It also included a teacher's section that provided a comprehensive resource to deliver parts of the citizenship/PSHE curriculum to students.[1]

6.16.14 The Task Group considered the support Medway Council officers should seek to provide - though the use of good practice and signposting of organisations such as Credit Action (who deliver free financial education workshops to secondary schools, sixth forms and further education colleagues) and Medway Citizens Advice Bureau.

Recommendation 25:

That the Director of Children and Adults consider, in consultation with Medway's Trading Standards team, examples of good practice to explore how the Council can promote and assist in the development of financial literacy and mentoring in Medway's Sure Start Children's Centres, pre-schools, schools and Further/Higher Education institutions.

6.17 Local Authority Welfare Provision

6.17.1 As part of the evidence submitted the Task Group heard of existing initiatives provided by the Council in providing support to Medway's residents. This included:

- Home Improvement Loans - loans available to low income homeowners to pay for essential repair works to their homes.[2]
- Discretionary Housing Payments - extra payments for anyone in receipt of housing benefit or council tax benefit. These were not intended to be long

[1] Submission to Task Group by Commercial Services Manager, Medway Council 2012

[2] Submission to Task group by Private Sector Housing and Housing Options Manager, Medway Council 2012

term continuing payments; they were awarded on a short-term basis while the claimant took action to improve their circumstances.[1]

6.17.2 The Revenue and Benefits Manager at Medway Council also provided the Task Group with an overview of the Government's proposals to localise Council Tax Benefit from April 2013 and other housing benefit reforms, such as to the Local Housing Allowance and the capping of benefits from April 2013. These would impact upon Medway Council and importantly the financial resources of its residents.

6.17.3 The Task Group was advised as to work being undertaken within the Council to help residents in this area and the Members stressed the importance of notifying people as to the changing rules, together with information on money advice. It was noted that the Council had received £75,000 to provide targeted support in 2012/13 to help meet the housing needs of claimants affected by Housing Benefit reforms.[2]

Recommendation 26:

That the Chief Finance Officer, in consultation with the Social Regeneration Manager, bring forward proposals for a programme of sessions, one package per ward, financed from the housing benefit reforms transitional funding or such other funding which may be identified by the Chief Finance Officer, to provide targeted support in 2012/13 to help meet the housing needs of claimants affected by Housing Benefit reforms and also signposting wider money advice and support.

6.17.4 The Task Group was also advised that the Discretionary Social Fund, currently administered by the Department for Work and Pensions (DWP), would be abolished under the Welfare Reform Act 2012 from April 2013 and replaced with

- locally-based provision (provided by local authorities) to replace community care grants and crisis loans for general living expenses, and
- a new nationally administered (by the DWP) advance of benefit facility including short term advances for someone awaiting their first benefit payment and budgeting advances for people with certain one-off expenses.

The payments (grants and loans) were designed to help vulnerable individuals remain or establish themselves in the community or ease exceptional pressures they or their family are facing.[3]

[1] Submission to Task Group by Revenue and Benefits Manager, Medway Council 2012
[2] Submission to Task Group by Revenue and Benefits Manager, Medway Council 2012
[3] Submission to Task Group by Revenue and Benefits Manager, Medway Council 2012

6.17.5 The Task Group were advised that payments were currently made under five separate headings[1], and details of claims and expenditure for the period April 2011 to September 2011 were as follows:

2011/2012 (April -September)	No of applications received	Number of Awards	Total Expenditure
Crisis Loan Items	560	280	£84,400
Crisis Loan Living Expenses	2,550	2,020	£105,800
Crisis Loan Alignments	2,090	1,900	£119,200
Community Care Grants	1,060	540	£221,200
Budgeting Loans	3,230	2,290	£960,600

6.17.6 The Task Group was concerned that the new social fund framework for Medway continue to support Medway's vulnerable individuals and remain a viable alternative to high cost lenders or Loan Sharks.

6.17.7 The Task Group also considered aspects of the new framework and asked questions as to the development of partnerships for the provision of goods rather than cash; the provision of assistance to residents returning to work; and, recognising that there could potentially be 7,000 extra people seeking immediate and intensive support, the need to resource intensive and urgent face-to-face contact facilities[2].

Recommendation 27:

That the Chief Executive bring forward proposals to Cabinet, via Overview and Scrutiny, on a new Medway framework for the Social Fund that gives consideration to following issues raised by the Task Group:

1. **the need to resource intensive and urgent face-to-face contact facilities, in particular for crisis loans,**
2. **the development of partnership arrangements with retailers for the provision of goods rather than cash,**
3. **providing assistance to residents returning to work whilst awaiting their first payday.**

6.17.8 Recognising the number of changes that will impact on residents, the Task Group emphasised the need to develop publicity highlighting the changes being introduced in relation to the new frameworks for Council Tax Support and the Social Fund, Local Housing Allowance and the availability of short-term discretionary housing payments.

[1] Submission to Task Group by Revenue and Benefits Manager, Medway Council 2012
[2] Submission to Task Group by Revenue and Benefits Manager, Medway Council 2012

Recommendation 28:

That the Chief Finance Officer develop publicity highlighting the changes being introduced in relation to the new frameworks for Council Tax Support and the Social Fund, together with details of the Local Housing Allowance and the availability of short-term discretionary housing payments that is accessible to all communities.

6.18 Illegal Money Lending (Loan Sharks)

6.18.1 Whilst this review considered access to affordable credit, some of the detail presented to Members included information about illegal money lending (Loan Sharks). Due to the potential damage of illegal lending to both the victim and community it was considered that for the review into affordable credit to be meaningful it needed to acknowledge this evidence, especially if consumers borrow from Loan Sharks because of a lack of alternative credit options.

6.18.2 Whilst licensed lenders are regulated by the Office of Fair Trading and their services must follow both the legislative framework and codes of practice, this level of protection is not available from Loan Sharks. Loan Sharks lend without a credit licence and operate outside the law. Agreements with Loan Sharks are therefore legally unenforceable.

6.18.3 The scale of illegal lending is difficult to gauge. Indeed a report by the Department of Trade and Industry in 2006 cited that:

> "Intimidation and violence ensure that payments to lenders are prioritised while protecting lenders from reporting"[1]

6.18.4 Detection and enforcement was identified as an important component in combating illegal lending. The Task Group were informed of the Illegal Money Lending Team in Birmingham. The purpose of this team was to investigate allegations of illegal money lending, to establish whether illegal activity was taking place and, if so, to take enforcement action to bring that illegal activity to an end. A single national hotline number (0300 555 2222) and a Stop Loan Sharks website had also been launched to warn against the dangers of illegal lending and encourage greater reporting of loan sharks.

6.18.5 Evidence provided by the Illegal Money Lending Team, England highlighted the damaging impact of illegal lending on both their victims and the wider community; in addition to operating without the Consumer Credit Licence other charges included money laundering, drug possession, criminal damage, blackmail, kidnap and assault.

6.18.6 With fear and intimidation and little or no paperwork the cost of loan and its terms can be obfuscated. However, evidence submitted to the Task Group estimated that Loan Shark victims pay back over £120 million a year[2] and it

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[1] Personal Finance Research Centre and Policis, DTI *Illegal lending in the UK* November 2006 p7
[2] Citizen Advice Bureau submission to Task Group 2012

was noted that the Stop Loan Sharks Team, England had identified over 2,000 illegal lenders, offered support to over 18,000 loan shark victims and written off over £38 million of illegal debt[1]. It was reported that the distribution of illegal lending followed patterns of disadvantage nationally and also those of home credit exclusion, which itself is correlated with deprivation in most areas.[2]

6.18.7 Locally Medway's Trading Standards officers were trying to raise awareness of this hidden crime to encourage victims to come forward. Medway Council's Trading Standards Team and England Illegal Money Lending Team[3] had teamed up to offer advice and raise awareness of illegal money lenders and the way they operate. The Task Group was also informed of publicity in local pubs that warned residents of borrowing cash from loan sharks and warnings to students over a scam student loan email. An article had also been included within the council's Housing Matters - a publication produced by the Council's Housing Services for tenants and leaseholders magazine warning about loan sharks and referencing the Trading Standards South East Illegal Money Lending Team and confidential hotline.

Recommendation 29:

That the Director of Regeneration, Community and Culture, with partners where appropriate, work to ensure via all communication channels that the key message is always accessing credit via a licensed lender and advising residents about lending codes and standards, for when they are considering credit.

[1] Illegal Money Lending Team, England *Stop Loan Sharks National Champions Award 2012 advert* 2012
[2] Personal Finance Research Centre and Policis, DTI *Illegal lending in the UK* November 2006 p5
[3] Medway Council *Taking the bite out of illegal loan sharks* 2012 http://www.medway.gov.uk/information/newspages/news/newsarticle.aspx?id=4228

7. CONCLUSIONS AND RECOMMENDATIONS

7.1 The Task Group considered and commented upon local and national evidence and initiatives and in doing so have made a series of recommendations. The Task Group acknowledges that the use of credit is sometimes essential in maintaining everyday life but has brought forward recommendations on a number of areas for when this credit becomes unaffordable.

7.2 In line with the remit of this review the Task Group has explored:

- the role of the Council in supporting Medway residents affected by unaffordable credit

The proposed approach includes work on enabling credit unions, promoting financial literacy and supporting the establishment of a Social Impact Board. A key message was also that of always accessing credit via a licensed lender, making residents aware of the sources of free and independent debt advice and providing a consistent message based upon early contact and intervention when problems arise.

- strengthening the rules governing the issue of lending licences and, recognising that an effective strategy in combating illegal lending was an alternative supply, addressing the lack of affordable credit

The Task Group's proposed approach focuses on making the consumer credit market more transparent and responsive to the dynamic credit market, giving local authorities greater control over the planning process and enabling affordable alternatives such as credit unions.

- how the Council can promote financial literacy and affordable lending and debt counselling

The Task Group brings forward recommendations advocating the integration of financial education into the curriculum, financial literacy for all and promoting the timely access to appropriate and quality advice.

7.3 The specific recommendations are as follows:

1. That the Cabinet welcomes the current scrutiny of the credit market at a national level, as evidenced by the Office of Fair Trading review of payday lending.

2. That the Cabinet agree that the council should respond to consultations on the consumer credit market where appropriate.

3. That the Cabinet notes that Medway Citizens Advice Bureau, with support from Wonga, is undertaking a review of lending products and the level and nature of consumer indebtedness amongst Medway residents and would support the findings of this being reported to the proposed Social Impact Board (see recommendation 4).

4. That the Cabinet support the establishment of a multi-agency Social Impact Board in Medway looking at issues of debt, worklessness and housing. The objective being to continue and enhance partnership working with public, private and voluntary sector providers, with an emphasis upon a co-ordinated approach that actively assesses the needs of Medway residents. That the Board be encouraged, as and when appropriate, to work with the lending trade associations and the lenders themselves.

5. That the Director of Regeneration, Community and Culture writes to local organisations including voluntary, community and church groups in Medway, emphasising the need to notify Medway Council's Trading Standards team and Financial Ombudsman Service of instances of firms acting inappropriately or illegally to ensure they can be investigated in an appropriate and timely fashion.

6. That the Cabinet supports the transfer of the regulation of consumer credit to the Financial Conduct Authority (FCA) and notes that the model for FCA regulation will be designed with input from the Financial Services Authority, Office of Fair Trading, and industry and consumer representatives and the transfer will then be subject to impact assessment and approval by both Houses of Parliament.

7. That the Cabinet notes and commends the announcement by the Government on 19 July 2012 that the Office of Fair Trading is to be given power to suspend a consumer credit licence with immediate effect where there is an urgent need to protect the interest of consumers.

8. That the Director of Regeneration, Community and Culture recommend to the Minister for Communities and Local Government and Medway's Members of Parliament that the Town and Country Planning (Use Classes) Order 1987 be amended, so that any holder of a Consumer Credit Licence which is not also regulated by the Financial Services Authority for the purpose of taking deposits, is removed from the A2 Use Class as defined in TCPUC 1987 and placed in a new category.

9. That the Council welcomes the appointment of Bristol University's Personal Finance Research Centre to carry out research into the impact on consumers and business of a variable cap on the total cost of credit that can be charged in the short to medium term high cost credit market. The research is due to report in summer 2012 and it is recommended that the Council review and respond to the Government response to this research.

10. That the Director of Regeneration, Community and Culture recommend to the Department for Business, Innovation and Skills, whilst noting the current Office of Fair Trading review into the payday lending sector, that the Government consider introducing:
    - limits on the ability of consumers to roll over loans.
    - further controls over marketing and curtailing the targeting of specific groups.
    - in discussion with credit agencies and trade associations, new means to improve credit referencing, so all lenders provide real time information to credit agencies about the payment performance of customers, which in turn would assist those with good payment records to use mainstream lenders in the future and restrict the possibility of multiple loans.
    - in discussion with trade associations the introduction of a compulsory total charge for credit per £100 or total cost of capital, in addition to the use of APR, to assist consumers in assessing whether the proposed agreement is suitable for their needs and financial situation, noting that it was being introduced on a voluntary basis.

11. That the Director of Regeneration, Community and Culture write to the main banks operating in Medway encouraging them to promote easy access to Basic Bank Accounts, as a means of encouraging the remaining unbanked into the mainstream, and highlighting the Task Group’s concerns about high daily penalties for unauthorised overdrafts and that the banks should be providing affordable alternatives for customers needing to take out short term loans, with greater transparency of the fee structure and fairer charges.

12. That the Cabinet note that Credit Unions as financial institutions provide a sound and reliable source of affordable credit and welcomes the contribution made by Kent Savers Credit Union Ltd and Medway Credit Union Ltd for their part in providing a service to the Medway community.

13. That the Social Regeneration Manager work with the Medway Credit Union Ltd to seek a suitable High Street location within the Medway area.

14. That the Director of Regeneration, Community and Culture invite Kent Savers Credit Union Ltd and Medway Credit Union Ltd to work with officers from the Regeneration, Community and Culture Directorate to develop an action plan exploring how assistance can be provided or guidance given with business development and training to enable the credit unions to seek support from local organisations, institutions and businesses to both raise their profile, to attract new members (especially in the areas outside of the main town locations) and generate volunteers with a financial background.

15. That the Assistant Director Communications, Performance and Partnerships invite Kent Savers Credit Union Ltd and Medway Credit Union Ltd to work with officers within the Business Support department to publicise the contribution of the Credit Unions through the council's communication channels, including Medway Matters, and the Council's website. This is to explain what Credit Unions are, the benefits and risks of joining a Credit Union and how people could join.

16. Recognising the concern and impact of debt on Medway resident's health and wellbeing, together with the need for co-ordinated advice and support services, the Task Group recommended to Cabinet that a copy of this review report be submitted to Medway's Health and Wellbeing Board for consideration.

17. That the Assistant Director Communications, Performance and Partnerships should ensure via all its communication channels that there is a consistent message based upon early contact and intervention and support for good quality, independent debt and money advice.

    This should provide clear advice on the types of debt and the importance of addressing priority debts first. Consumers should be made aware of the difference between seeking free advice and turning to commercial debt management companies and signposted to organisations such as the local Citizens Advice Bureau, Consumer Credit Counselling Service, the Money Advice Service, the Money Advice Trust and National Debtline, which provide free financial health checks and advice and information for consumers before and after they take out credit.

18. That the Assistant Director Communications, Performance and Partnerships includes within The Headlines, the council's internal electronic newsletter, key information and contacts for

staff to support residents in relation to the provision of free debt advice from organisations such as the Citizens Advice Bureau, Consumer Credit Counselling Service, the Money Advice Trust and National Debtline.

19. That the Council welcome the free debt advice provided by organisations such as Medway Citizens Advice Bureau, the Consumer Credit Counselling Service and Money Advice Trust which provide a range of advice access points.

20. That the work and guidance issued by the Office of Fair Trading concerning debt management businesses be welcomed but the Director of Regeneration, Community and Culture recommend to the Office of Fair Trading that further consideration be given to address continued concerns regarding fee-charging "debt management" businesses.

21. That the Director of Regeneration, Community and Culture request that the Department for Business, Innovation and Skills introduce regulation, including transparent costings of service, in relation to statutory debt management plans in order to standardise and raise the quality of service provided by debt management companies.

22. That the Social Regeneration Manager seeks to introduce a session about debt issues into the new Project CYC that will run informal education vocational development at outreach centres.

23. That the Director of Children and Adults, recognising the importance of all young people and children receiving education on personal finance and how to avoid unnecessary debt and the dangers of falling into a debt spiral, recommend to the Secretary of State for Education as part of the review of the National Curriculum that the financial education elements of PSHE should be made compulsory in primary and secondary education.

24. That the Director of Children and Adults write to the senior leaders of all primary and secondary schools/academies (including special schools) in Medway highlighting the advantages of including financial literacy as part of their curriculum and identifying the importance of appointing a school champion to ensure the achievement of outcomes.

25. That the Director of Children and Adults consider, in consultation with Medway's Trading Standards team, examples of good practice to explore how the Council can promote and assist in the development of financial literacy and mentoring in Medway's Sure Start Children's Centres, pre-schools, schools and Further/Higher Education institutions.

26. That the Chief Finance Officer, in consultation with the Social Regeneration Manager, bring forward proposals for a programme of sessions, one package per ward, financed from the housing benefit reforms transitional funding or such other funding which may be identified by the Chief Finance Officer, to provide targeted support in 2012/13 to help meet the housing needs of claimants affected by Housing Benefit reforms and also signposting wider money advice and support.

27. That the Chief Executive bring forward proposals to Cabinet, via Overview and Scrutiny, on a new Medway framework for the Social Fund that gives consideration to following issues raised by the Task Group:
    - the need to resource intensive and urgent face-to-face contact facilities, in particular for crisis loans,
    - the development of partnership arrangements with retailers for the provision of goods rather than cash,
    - providing assistance to residents returning to work whilst awaiting their first payday.

28. That the Chief Finance Officer develop publicity highlighting the changes being introduced in relation to the new frameworks for Council Tax Support and the Social Fund, together with details of the Local Housing Allowance and the availability of short-term discretionary housing payments that is accessible to all communities.

29. That the Director of Regeneration, Community and Culture, with partners where appropriate, work to ensure via all communication channels that the key message is always accessing credit via a licensed lender and advising residents about lending codes and standards, for when they are considering credit.

Appendix 1

Diversity Impact Assessment: Screening Form

<table>
<tr><td colspan="2">Directorate</td><td colspan="2">Name of Function or Policy or Major Service Change

Task Group on Fair Access to Credit</td></tr>
<tr><td colspan="2">Officer responsible for assessment

Gavin Stedman
Anthony Law</td><td>Date of assessment

July 2012</td><td>New or existing?

New</td></tr>
<tr><td colspan="4">Defining what is being assessed</td></tr>
<tr><td>1. Briefly describe the purpose and objectives</td><td colspan="3">The Task Group on Fair Access to Credit has held a number of meetings to take evidence from individuals and organisations with an interest in this area.

The Task Group has come up with a number of recommendations on the way forward that are addressed to different Departments of Government, Trade and Community Organisations and services of the Council.

This assessment focuses primarily on the recommendations for Council services as the Government Departments will have their own assessment frameworks for anything that they decide to action; and Trades and Community Organisation will be asked to ensure that they comply with their equalities obligations in line with good practice and legislation.</td></tr>
<tr><td>2. Who is intended to benefit, and in what way?</td><td colspan="3">Residents of Medway who experience problems in accessing ‘licensed’ sources of credit.
Medway Council in promoting Medway as a place where people can achieve their potential</td></tr>
<tr><td>3. What outcomes are wanted?</td><td colspan="3">An end to illegal money lending within Medway.
Availability of credit and sources of finance for residents that are licensed and regulated.
Effective support mechanism for those that have a debit problem.
Awareness and understanding of the support that is available for people caught up in illegal money lending.
Information and learning on managing personal finance and personal debt becoming a part of learning in schools, F/HE and other opportunities for learning.</td></tr>
</table>

4. What factors/forces could contribute/detract from the outcomes?	Contribute Appropriate Member and Officer support for the Recommendations	Detract Lack of action to implement the recommendations Lack or inability to take up information and support by those in debt or unable to access credit
5. Who are the main stakeholders?	Local residents, Medway Council, National Government, Trades and Community Organisation	
6. Who implements this and who is responsible?	Local residents, Medway Council, National Government, Trades and Community Organisation	

Assessing impact		
7. Are there concerns that there <u>could</u> be a differential impact due to *racial/ethnic groups*?	NO	The Task Group did not receive any specific information in its evidence sessions concerning a potential differential impact due to racial/ethnic groups. The recommendations are applicable to all and officers taking forward any recommendations would need to ensure that any revisions to services are accessible to all communities in line with the council's equality commitment.
What evidence exists for this?		
8. Are there concerns that there <u>could</u> be a differential impact due to *disability*?	NO	The Task Group did not receive any specific information in its evidence sessions concerning a potential differential impact due to disability, although some of the case studies did highlight issues of disability as a factor. The recommendations are applicable to all and officers taking forward any recommendations would need to ensure that any revisions to services are accessible to all communities.
What evidence exists for this?		
9. Are there concerns that there <u>could</u> be a differential impact due to *gender*?	NO	The impact of the recommendations is intended to meet the needs of both women and men.

What evidence exists for this?	Evidence submitted by the Consumer Finance Association (a survey of 300 customers) revealed a similar level of male and female accessing payday loans.	
10. Are there concerns there could be a differential impact due to *sexual orientation*?	NO	The Task Group did not receive any specific information in its evidence sessions concerning a potential differential impact due to sexual orientation. In line with the council's equality commitment the recommendations are applicable to all and officers taking forward any recommendations would need to ensure that any revisions to services are accessible to all communities.
What evidence exists for this?		
11. Are there concerns there could be a have a differential impact due to *religion or belief*?	NO	The Task Group did not receive any specific information in its evidence sessions concerning a potential differential impact due to religion or belief. The recommendations are applicable to all and officers taking forward any recommendations would need to ensure that any revisions to services are accessible to all communities in line with the council's equality commitment.
What evidence exists for this?		
12. Are there concerns there could be a differential impact due to people's *age*?	NO	The impact of the recommendations is intended to benefit all age groups, as appropriate within Medway's community.
What evidence exists for this?	Evidence submitted by the Money Advice Trust stated that clients were disproportionately from the 35-54 age group. The Consumer Credit Counselling report Debt and Money Report Q4 2011 stated that middle-aged and elderly people in particular will be increasingly affected by debt problems.	
13. Are there concerns that there could be a differential impact due to *being trans-gendered or transsexual*?	NO	The Task Group did not receive any specific information in its evidence sessions concerning a potential differential impact due to transgender. The recommendations are applicable to all and officers taking forward any recommendations would need to ensure that any revisions to services are accessible to all communities in line with the council's equality commitment.
What evidence exists for this?		

<table>
<tr><td rowspan="2">14. Are there any other groups that would find it difficult to access/make use of the function (e.g. speakers of other languages; people with caring responsibilities or dependants; those with an offending past; or people living in rural areas)?</td><td></td><td rowspan="2">The Task Group did not receive any specific information in its evidence sessions concerning a potential differential impact to any other group. The recommendations are applicable to all and officers taking forward any recommendations would need to ensure that any revisions to services are accessible to all communities.</td></tr>
<tr><td>NO</td></tr>
<tr><td>What evidence exists for this?</td><td colspan="2"></td></tr>
<tr><td rowspan="2">15. Are there concerns there <u>could</u> be a have a differential impact due to multiple discriminations (e.g. disability <u>and</u> age)?</td><td></td><td rowspan="2">The Task Group received limited information in its evidence sessions concerning a potential differential impact due to multiple discriminations although some of the case studies highlighted issues of age and disability as factors in the management of debt. The recommendations are applicable to all and officers taking forward any recommendations would need to ensure that any revisions to services are accessible to all communities.</td></tr>
<tr><td>NO</td></tr>
<tr><td>What evidence exists for this?</td><td colspan="2">The Citizens Advice Bureau in their submission to the Task Group identified that 11% of lone parent households use “non-mainstream” loans (payday loans, home credit and pawnbroking) compared to 3% of households overall.

The Office of Fair Trading website also noted that a typical customer for pawnbroking was described as female in her twenties or thirties, with children, and in low paid work or unemployed and receiving benefits</td></tr>
<tr><td colspan="3">Conclusions & recommendation</td></tr>
<tr><td rowspan="2">16. Could the differential impacts identified in questions 7-15 amount to there being the potential for adverse impact?</td><td></td><td rowspan="2"></td></tr>
<tr><td>NO</td></tr>
<tr><td rowspan="2">17. Can the adverse impact be justified on the grounds of promoting equality of opportunity for one group? Or another reason?</td><td>YES</td><td rowspan="2"></td></tr>
<tr><td>NO</td></tr>
<tr><td colspan="3">Recommendation to proceed to a full impact assessment?</td></tr>
</table>

<table>
<tr><td>NO</td><td colspan="2">This review complies with the requirements of the legislation and there is evidence to show this is the case.</td></tr>
<tr><td>NO, BUT …</td><td>What is required to ensure this complies with the requirements of</td><td>Minor modifications necessary (e.g. change of ‘he’ to ‘he or she’, re-analysis of way routine statistics are reported)</td></tr>
</table>

	the legislation? (see DIA Guidance Notes)?	
	Give details of key person responsible and target date for carrying out full impact assessment (see DIA Guidance Notes)	

Action plan		
Outcome	**Actions (with date of completion)**	**Officer responsible**
Access to affordable credit and sources of advice	Government Departments, Trades and Community Organisation will be asked to ensure that they comply with their equalities obligations in line with good practice and legislation.	
Access to affordable credit and sources of advice	Ensure that recommendations concerning the council's communications channels are accessible to all communities.	
Access to affordable credit and sources of advice	With limited information on Medway residents using credit it is hoped that the review of lending products being undertaken by Medway Citizens Advice Bureau will identify any concerns that there could be a differential impact on a particular *group*	

Planning ahead: Reminders for the next review			
Date of next review	No further review planned		
Areas to check at next review (e.g. new census information, new legislation due)	N/A		
Is there *another* group (e.g. new communities) that is relevant and ought to be considered next time?	N/A		
Signed (completing officer/service manager)		**Date**	
Signed (service manager/Assistant Director)		**Date**	

Fair Access to Credit Case Studies

As set out in paragraph 6.1.9 of the main report the Medway Citizens Advice Bureau provided the Task Group with the following case studies to assist in understanding the experiences of local residents. The identity of specific lenders in these case studies has been anonymised but include a number of well-known organisations such as Wonga, Greenwood, Pounds to Pocket and various credit card companies.

Case study 1

- Nearly £7000 arrears with mortgage payments
- Utility bill arrears
- 20 non-priority debts, including nearly **£3000** from one lender and nearly **£1000** from another
- Client's wife has kidney failure and uses dialysis machine, for which the house has been specially adapted – their spare room houses the equipment and has been adapted for a separate water supply – it was unfeasible for them to become bankrupt and risk losing their house.
- The client's wife also suffers panic attacks.
- Cutting back on food etc to pay their debts.

Case Study 2

- Pregnant single parent with one child
- £2000 rent arrears
- £600 from Lender organisation
- £306 from Lender organisation
- £668 from Lender organisation
- £592 from Personal Credit organisation
- £500 Credit Card company
- £500 Another Credit Card company

Case Study 3

- Client has hiatus hernia and is suffering depression due to debts and grieving for brother who committed suicide due to his own debts.
- Client in receipt of IB, ESA, HB, CTB
- Debts totalling over £40,000 including:
- Nearly £3000 rent arrears
- Council Tax arrears: over £400
- **Unsecured loans: £14,671**
- **Catalogue: nearly £2000**
- **Credit/debit cards: £11,178**
- Telephone: £970
- Water arrears: nearly £4000

Case study 4

- Debts built up whilst in prison
- **£5000 personal debt** (loans, credit cards) as well as council tax arrears
- Cannot afford to go bankrupt
- Being hounded by bailiffs
- Suffering hypertension, anxiety and stress

Case study 5

- Single parent family with 3 children
- Rent arrears, 4 payday/high interest loans
- Debts mounting – cannot work full time as childcare costs are too much

Case study 6

- Over **£7000 payday loan debts**
- Struggling to make basic payments – rent, bills etc
- Could risk losing home

Case study 7

- Lost job due to work related stress
- Living in mortgaged property with partner and two children
- **Credit card debts**
- **Struggled to pay priority debts and turned to payday lenders (£1200)** but did not realise the interest charges. Lost job quickly so could get little help quickly (with benefits) and was struggling to pay any bills.
- Payday lenders were contacted as well as all creditors, and negotiated token offers

Case study 8

- Widow with a property worth more than £100,000
- Needed to do work in the property and approached a loan organisation which knew she was **on DLA with low income**, but they arranged a **secured loan for £7,000**
- When client defaulted on the payments they arranged another **secured loan from another lender for £11,300**. Defaulted on this loan too and **another secured loan of £23,000 was arranged. Home was then repossessed in February 2011.**
- Approached a local lender when having difficulties paying the secured loan. They arranged a **secured loan of £2,000**.
- By the time the property was repossessed the local lender claimed that the outstanding balance to redeem their loan was over **£9300.**

Case study 9

- **Made redundant** and struggled to keep up with mortgage repayments as well as paying other creditors and utility providers.
- Marriage broken down
- **Property repossessed** in April and client now living with family
- Client now works part-time and still cannot afford to make repayments to creditors. **Considering bankruptcy**.
- Council Tax arrears = £1,200
- Mortgage shortfall -£40,000 approx
- Overdraft and car loan - £6,197.89
- Gas and electricity arrears for previous property - £1709.56
- Southern Water arrears for previous property - £288.60
- Phone bills £602.91
- Personal loan - £9,003.00
- **Credit cards totalling - £3511.66**
- **Payday loan 1 - £537.21**
- **Payday loan 2 - £749.47**
- **Payday loan 3 - £556.44**
- **Payday loan 4 - £375.00**

Case study 10

- Client and partner **both unemployed and in receipt of JSA**.
- Daughter helped to pay some bills but was no longer able to. There were no other family or friends that could help.
- Rent arrears due to delay processing Housing Benefit.
- **Unsecured loan - £6527.53**
- Overpayment of wages - £1202.34 with the NHS
- Mortgage shortfall from a previous property that was repossessed - £31,643.80
- Catalogue debt - £570.73
- **Considering bankruptcy** as soon as they have the funds.

Case study 11

- **Single parent** with 1 child
- All debts are in client name but most were run up by ex partner (who was physically abusive)
- Client had been paying towards all debts but began to struggle
- Gets partial HB, partial CTB, CB, CTC, IS, DLA, and CA. Daughter also gets DLA. Client suffers Bi-Polar and depression.
- **loan with an outstanding balance of £480**
- **credit card: £2500**
- **credit card: £1100 and £1400**
- **credit card: £250**
- **overdraft: £800**
- Southern Water debt from previous address: £400
- Southern Water debt at current address: £140
- Gas debt (British Gas): £100
- Electricity debt (EDF): Amount unknown.
- CTC overpayment - £30 deducted from CTC monthly to pay it off

Case study 12

- Lives in a Council property with her father and brothers, one of whom the client supports as they have kidney problems
- Council Tax arrears - £150 approximately
- **payday loan - £600.00**
- **payday loan - £400.00.** Client has tried negotiating but they have so far refused to respond.
- **doorstep loan - £1,000.00**