

FINANCIAL
INCLUSION
TASKFORCE

“Access to affordable credit: second wave survey of Growth Fund catchment areas”

A discussion of policy implications arising from the GfK research project commissioned by the Financial Inclusion Taskforce

Introduction

The Financial Inclusion Taskforce has commissioned research from GfK to contribute to its remit to monitor the impact of the Government’s £80 million Growth Fund (2006-2011) for third sector lenders, which is being administered by the Department for Work and Pensions (DWP).

The objective of the Growth Fund is to increase the supply of affordable credit available to those on low incomes in areas of high financial exclusion. In accordance with its responsibilities to track the impact of this funding stream, the Taskforce receives regular management information from the DWP on the number and volume of loans made, in addition to information on the financial performance of contracting lenders and demographic details of borrowers. Using this information, the Taskforce will publish periodic reports assessing progress with this initiative.

This piece of research is intended to complement the Taskforce’s work in monitoring the Growth Fund by examining whether there are any wider changes in awareness and usage of credit products within the catchment areas of funded institutions during the lifespan of the Fund. The first wave of research consisted of 2805 interviews with qualifying respondents¹ in the catchment areas of 18 institutions² and provides a baseline, against which this and other future waves of the survey will be measured.

Survey work for the second wave was completed in August and September 2007, at the beginning of the credit crunch and before it was clear what the

¹ Qualifying respondents included those claiming at least one of: housing benefit, income support, working tax credit, job seekers allowance, council tax benefit or guaranteed pension tax credit. Where not claiming one of these benefits or tax credits, respondents would also qualify if they were: a single person earning £220 or less per week (net) or a couple, with or without children, earning £305 or less per week.

² Sampling took place in the geographic areas specified by contracting lenders for delivery of the Growth Fund service. These areas are known to be likely concentrations of financial exclusion.

real impact would be. This paper draws on the key findings of the report, and presents the Taskforce's view of the key policy implications moving forwards.

Syntax for survey figures quoted in this report is:
2nd wave figure (baseline figure), eg. 20% (24%)

If there is no bracketed figure, the stated figure will refer to the 2nd wave.

If there is only a bracketed figure it refers to the difference between 2nd wave and baseline, negative figure is a fall, positive is an increase.

Key findings and policy implications

1. Attitudes towards borrowing and the availability of credit

- When presented with a list of commonly cited social concerns, personal finance related concerns remained a considerably lower priority when asked about neighbourhood problems than the headline issues from the baseline survey. Anti-social behaviour was mentioned by 53% (50%), lack of police by 47% (49%) and drugs by 40% (39%). There was no significant change in concern at the lack of access to affordable credit , which stayed at 12% or at lack of access to free debt advice, which stayed at 8%. Concern at lack of banking facilities fell slightly to 15% (17%). .
- The survey showed no change in attitudes to borrowing since the first wave. 51% viewed borrowing as never a good thing, 37% as occasionally necessary, 10% as a convenient way of buying things – all identical to the baseline results.
- There were no significant changes in ability to repay, with 62% (60%) reporting that they were keeping up with all credit commitments without any difficulties, and 25% (26%) struggling from time to time. The proportion falling behind or in real difficulty was unchanged at 6%. The groups most likely to be in difficulties were those using high-cost credit – 22% of those using payday loans, 19% of those using pawnbrokers and 15% of those using buy back shops
- When asked about the cost of different types of credit, there was an increase in the proportions perceiving home credit and pawnbrokers as high cost, to 53% (50%) and 44% (40%) respectively. The forms of borrowing that the most respondents perceived as high cost remained unarranged overdrafts at 68% and unlicensed lending at 65%
- Perception of credit union loans remained practically unchanged, with 21% (21%) viewing them as low cost but most respondents were still unaware of the cost of borrowing from a credit union with 61% (60%) having no perception of the level of charges. However, credit unions loans were more likely than any other product to be perceived as low cost among the respondents that were aware of them.

- Among those who had any idea of the cost of credit union loans, almost half (46%) did not think that they provided low cost credit. One in five thought that they were high cost.
- For each form of credit mentioned, at least 25% of respondents gave a 'don't know' response as to whether it was high, middle or low cost. The mean proportion of 'don't knows' was 39%, although it is not possible to determine the extent to which this reflects unfamiliarity with that form of credit rather than inability to judge the cost.
- Credit union loans were identified as having low charges by 21% of respondents – higher than for any other form of credit (the nearest being agreed overdrafts, which 18% thought had low charges and agency mail order / catalogue, which 10% thought had low charges).
- The difference is even more pronounced when excluding the “don't knows”. 54% of those who had an opinion on the charges for credit union loans thought that they had low charges – the next nearest when considered in this way were agreed overdrafts at 27% and agency mail order at 13%.

Policy implications

- Moderate improvements in identification of home credit and pawnbroking as high cost indicate a certain level of success in increasing financial awareness, which could filter through in time into greater consideration of alternative sources of credit, including credit unions.
- The positive impact of this change is offset by the still high proportion of respondents unaware of the cost of credit union loans. Given the strong level of identification of credit union loans as low cost amongst those with any awareness, greater awareness of the cost of credit union loans ought to result in a greater natural inclination to use this resource when considered alongside a recognised high cost source of credit.
- Greater emphasis on comparisons with costs of other lenders could potentially reduce the amount of people who do not view credit unions as low cost – however overall awareness remains the primary issue needing to be tackled.

2. Sources of borrowing by low-income groups

- 67% (70%) of respondents had some form of current borrowing at the time of interview.³

³ Note that due to the focus of this research on specific localities, percentages cited may not reflect an accurate picture of usage and awareness of credit nationally. Quotas were set using GfK's Financial Research Survey (FRS) to ensure an accurate representation of gender, age, and working

- There was no significant change in the proportion with a current account or in the proportion with savings.
- The proportion using a Social Fund loan increased to 7% (5%). There was no statistically significant change in the level of use of a local credit union (although the change from 0.99% to 1.42% was significant at 90% confidence level)
- The only change in the proportions using particular forms of high cost credit was a reduction in the number using a non-bank (sub-prime) credit card, to 7% (9%) which may be a result of the tightening of lending criteria on credit cards over the last year⁴. However, as the overall proportion using high-cost credit is unchanged (41%) it is likely that this borrowing has simply been moved to other high-cost sources with less stringent eligibility criteria.
- The mean amount borrowed on high cost credit facilities was £554 (£582), but the change was not statistically significant.
- The mean outstanding balance held on non-bank credit cards reduced to £806 (£1,131), which reflects reduced spending on credit cards between 2006 and 2007 (APACS figures show a net decline in spending on credit cards in this period).
- The proportion using a mainstream credit card also fell, to 26% (29%). There was no significant change in the proportion using store cards which stood at 6% (9%), or the proportion using agreed overdrafts, which stood at 22% (24%). Only the fall in credit card usage is statistically significant. This is likely to reflect the tightening of criteria for credit products available to higher risk borrowers over the course of the year.

Policy implications

- Although overall use of credit has not changed greatly, there have been some notable changes in sources of borrowing, possibly driven by market forces – in particular, reductions in use of both mainstream and sub-prime credit cards. However there is also evidence of some unforced behavioural change with the increase in the proportion of respondents clearing their balances.

status. In order to ensure a sufficiently large representation among those of working age, the 55 years and over age group was undersampled, with survey results then weighted back to the FRS profile.

⁴ See Bank of England credit conditions survey Q2 and Q3 2007

<http://www.bankofengland.co.uk/publications/other/monetary/creditconditionssurvey070926.pdf> which indicates a significant tightening of credit-scoring and lowering of limits on credit cards in Q2 2007 (the survey began in Q2 2007 so there is not data for the rest of the year, however anecdotal evidence from banks suggests that at least some had been tightening their criteria throughout the whole course of the year.

- It is disappointing that no statistically significant change was observed in the level of credit union use, although it is noted that the catchment areas of credit unions are typically very small. As a result, unless research is conducted exclusively with respondents who live within a very tight radius of Growth Fund lenders, it is unlikely that the data would reflect any change in the level of awareness and usage among the credit union's target market.
- As mainstream provision of credit continues to be constricted due to the current market difficulties, it is to be expected that there will be greater demand for alternative sources of credit. In this context it is especially important to ensure that credit unions are able to capitalise effectively on this increased demand. Growth Fund will deliver a significant amount of the resource to provide the necessary loans, but this must be matched by sufficient growth in awareness of and willingness to consider credit union loans by target client groups
- Those without bank accounts are significantly more likely to be willing, but unable use low-cost credit than those with (27% compared to 14%). There is therefore potential to for progress by liaison with 'access to banking' initiatives, perhaps by signposting sources of affordable credit for those who are newly entering banking or including information on affordable credit on initiatives targeting the unbanked.

3. Demographic factors influencing credit use and willingness / ability to take out low cost credit

- Overall 21% (20%) of respondents were using only high cost credit products, and 24% (25%) only mainstream credit products. 20% (21%) were using a combination of both and 35% (34%) neither.
- Statistically significant decreases in the use of bank credit cards were recorded among men (-5%), the 25-34 age group (-7%) those with high cost borrowing (-6%), and in the catchment areas of Bacup & Mid Rossendale (-13%), First Dorset (-11%) and Portsmouth Savers (-11%). No groups increased usage of bank credit cards.
- Groups most likely to be using a bank credit card were ethnic minorities, particularly Asian (45%), mortgagors (46%), and those living in rural areas (37%).
- There is an inverse relationship between usage of credit unions and social fund, and usage of bank credit cards. Only 10% of those borrowing from credit unions or the social fund used bank credit cards, compared with 27% of those who do not use credit unions or social fund loans. Additionally, there was a statistically significant fall of three percentage points in the proportion of those using the social fund who also use a credit card.

- Younger age groups (18-44) - and in particular the 25-34 age group - are significantly more likely to be willing, but unable to use low cost credit than the older age groups: 38% of those unwilling to use low cost loans were over 65, compared to 16% of those who were unable to.
- Single respondents who have not used low cost credit were significantly more likely to be willing but unable to do so than the married or widowed respondents.
- Welsh respondents who have not used low cost credit were significantly more likely to be able, but unwilling to do so than those in England and Scotland.
- Households with any amount of children were significantly more likely to be willing, but unable to use low cost credit than those with none.

Policy implications

- Particular geographical areas and demographic groups appear to have changed their credit behaviour disproportionately. This could be as a result of constrictions in the mainstream credit market, or simply that they have moderated their usage. It may be worth examining those areas in particular that have experienced greater falls in bank credit card usage to see if this is followed by any increase in take-up of other forms of credit.
- Age is a strong discriminator in willingness to use low cost credit, probably reflecting age related attitudes to credit in general. This suggests that divergent strategies may need to be considered when engaging with these groups. Whereas with the younger age groups, simply raising awareness and focussing on availability of sources of low-cost credit may be reasonably effective, the older age-group will have a very different dynamic, and may simply be less willing to consider credit as a method of smoothing expenditure.
- In Wales, again, greater awareness and availability of credit union loans may translate less easily into usage due to the greater unwillingness to consider low cost credit.

4. Usage and awareness of non-mainstream credit products

- 41% (41%) of respondents were using some form of high-cost credit (however this proportion falls to 21% if mail order / catalogue is excluded)
- There was no significant change in the usage of high-cost borrowing, except for a slight reduction to 7% (9%) using non-bank (sub-prime) credit cards.

- Although usage levels were unchanged, there were statistically significant changes in the value of borrowing on high cost lines of credit. The proportion with less than £500 owed across all high cost borrowing rose to 61% (57%), and the proportion of home credit loans under £500 grew to 82% (75%). Amongst non-bank credit card users, the mean balance outstanding was £806 (£1,131)
- Only a third of non-bank cardholders paid off their entire balance all or most months, compared to 66% of all cardholders in GfK's Financial Research Survey who always or usually pay in full every month, and 68% who always or usually pay in full according to APACS⁵
- There were significant falls in the proportion of mail order / catalogue credit being used on higher cost items such as beds / bedding (from 10% to 7%) and furniture (from 10% to 6%).
- Home credit usage was unchanged at 12% of respondents. The profile of home credit usage did not change significantly from the previous year.

Policy implications

- The lack of change in usage of home credit and in the profile of its customers could demonstrate the general detachment of this particular demographic from conditions affecting the broader financial markets. The factors identified in the baseline report therefore still remain valid, including the prevalence of women among the users of high cost credit – and the related issues of social and cultural considerations.

5. Access to mainstream credit

- 44% (46%) of respondents were using some form of mainstream credit
- The mean store card balance rose to £350 (£232)
- There was very little overall change in low-cost borrowing, apart from a modest but statistically significant fall in the proportion with under £100 of total low-cost borrowing to 18% (23%).

Policy implications

- The drop in the number borrowing small amounts on mainstream credit, combined with the rise in the proportion of lower outstanding amounts on high-cost credit provides some circumstantial evidence of a shift in availability for low value credit.

⁵ 'Payment Myths' - APACS, December 2007
http://www.apacs.org.uk/media_centre/documents/APACSPaymentMyths28.12.07.pdf

- Aside from this, access to mainstream credit was largely unchanged, and policy should continue to reflect the likelihood that third sector lending for the time being is unlikely to be the sole or even primary source of credit for most borrowers. Initial efforts should continue to focus on ensuring that the third sector is included in the package of credit providers that low-income borrowers take into consideration.

6. The Social Fund

- There was a rise in the proportion of respondents with social fund loans to 7% (5%), while overall eligibility for social fund loans in the respondent base remained unchanged at 41% (42%). This may reflect an increase in the number of social fund loans granted in 2006/07 (2.4m, compared to 2.2m in 05/06)⁶
- There were rises in the number of respondents using social fund loans who were single (+3%), on income support (+4%) or housing benefit (+3%) and in urban catchment areas (+3%)
- Areas with highest take-up of social fund loans were North East Lincs at 13% (11%) and Barnsley at 12% (6%).
- There was no area with significantly decreased usage. Although higher levels of usage were reported in almost all areas, most were not statistically significant increases.
- There was a small but statistically significant increase in the proportion of respondents who would consider a social fund loan in the future, to 16% (14%).

Policy implications

- Growth in the usage of social fund may indicate that those who have found other sources of credit become restricted over the year have turned initially to the social fund to cover the gap in their finances
- Rises in social fund usage among those on income support and housing benefit are could be due to signposting through Job Centre Plus raising awareness and/or consideration among these groups. Research into how social fund users became aware of its availability may therefore provide guidance on potential avenues for increasing awareness of third sector lenders.

⁶ DWP Social Fund Annual Report on Social Fund 05/06 and 06/07
<http://www.dwp.gov.uk/publications/dwp/2006/annual-report-social-fund.pdf>
<http://www.dwp.gov.uk/publications/dwp/2007/annual-report-social-fund.pdf>

7. Third sector credit

- The proportion using credit unions rose to 1.42% (0.99%), but this is not significant at 95% confidence levels (however it is significant at the 90% confidence level)
- Further demographics on these respondents must be treated with caution as they are generated from a very low base (50 respondents) who had borrowed from a credit union.

Although higher credit union usage was measured in many areas compared to 2006, the only statistically significant increase was in Pollock where 3% (0%) had a credit union loan and even here the increase was very modest.

- Satisfaction level with credit unions was very high, with 96% of current users likely to consider using them again in the future.
- There was an increase in the proportion of all respondents who would consider borrowing from a local credit unions 15% (13%) in the future.
- Black respondents were significantly more likely to consider borrowing from a credit union in the future, with 23% expressing an interest.
- 45% of those using pawnbrokers said they were likely to consider using a credit union in the future, 28% of those with payday loans - and 20% of those using any form of high-cost credit
- Those least likely to consider credit unions were the retired, or those who owned their homes outright
- There was a small but statistically significant decline in the number of respondents who would not consider a credit union loan because of lack of awareness. Of those not considering a credit union loan, 52% (55%) had never heard of the credit union.
- This decline was largely due to large improvements for South Coast Money Line, First Dorset and Leeds
- Lack of awareness as a reason for non-consideration varied widely between areas from 76% unaware in the Citysave catchment area to 26% unaware in the Wythenshawe catchment area.
- Lack of awareness was elevated among the young (66% of 25-34 year olds unaware) and the unemployed (60% unaware) in particular.

- There was a small but statistically significant rise to 27% (24%) in the number who would not consider a credit union loan because “it’s not something I would normally do”.

Policy implications

- Modest improvements in awareness and consideration demonstrate that the sector has benefited to some degree, although increases in actual usage appear to be lagging behind. Significant progress could be made if awareness and consideration could be more effectively translated into action. At present only one in eight of those who say they would consider using a credit union actually do so. If the follow-through rate could be increased it would not only have an immediate effect on credit union usage, but would also improve the effectiveness of future awareness raising efforts.
- Distinct differences in the level of change of consideration in various regions suggest that some credit unions have been significantly more effective at awareness raising than others. Potential benefits may be obtained by sharing knowledge between regions on productive methods of marketing and communication.
- There is evidence that some of the demographic groups who may benefit the most from accessing credit unions are disproportionately unaware of their existence, for example, the unemployed and young adults. Additional analysis shows that these groups are both significantly more likely to be unable to access low-cost credit than unwilling to use it compared with other age groups or working statuses.
- The proportion of users of high-cost credit who would consider using a credit union suggests that encouraging credit unions to participate in the Lenders Compared website could be an effective way to improve usage.

8. Conclusion: Changes since the baseline and implications for monitoring the Growth Fund

Although the second wave of research shows limited changes in the uptake of third sector lending, some movement has been made in awareness and willingness to consider such loans. It is clear that there is a need to investigate specifically why so many of those who say they would consider using a credit union do not do so, and what could be done to tackle this.

The research has also highlighted specific groups whose willingness to use low-cost loans is elevated, but who are unable to access sources of credit. Raising awareness of third sector lenders among these groups in particular, the 25-34 age group and the unemployed may yield positive results

There is ongoing potential, as observed last year, for areas that have made good progress on raising awareness and consideration levels to share good

practice and give guidance to others on effective marketing and communication techniques.

Some thought needs to be given to how to tackle the “credit unions aren’t for me” mentality as evidenced by the rise in the number of people who would not consider a credit union because ‘it’s not something I would normally do’. Some research into the underlying reasons that this particular group have for this attitude could prove productive.

It is noted that since 1st October 2008, the Competition Commission has required home credit lenders to refer clients to the www.lenderscompared.org.uk website, where they will be able to view a comparison of the rates offered by various lenders in their area. In view of the ongoing lack of awareness of the cost of borrowing from credit unions, it would be a good strategic move to encourage, or even require, lenders providing loans through the Growth Fund to register their rates on the site.