



***“Access to affordable credit: baseline survey of Growth Fund catchment areas”***

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

**July 2007**

**Introduction**

The Financial Inclusion Taskforce has commissioned research from GfK NOP to contribute to its remit to monitor the impact of the Government’s £36 million Growth Fund 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 research consisted of 2805 interviews with qualifying respondents<sup>1</sup> in the catchment areas of 18 institutions.<sup>2</sup> The first report takes a baseline, against which future waves of the survey will be measured. Survey work was completed in August and September 2006, before the commencement of the majority of Growth Fund contracts.

---

<sup>1</sup> 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.

<sup>2</sup> 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.

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

## **Key findings and implications**

### ***1. Attitudes and perceptions of the cost and availability of credit***

- When presented with a list of commonly cited social concerns, 12% identified a lack of access to affordable credit as a problem in their community. This compared to 50% mentioning anti-social behaviour, 49% a lack of police, and 39% drugs. 17% identified a lack of banking facilities as a concern.
- 51% of those questioned said that borrowing is never a good thing (78% of those aged over 65 were of this view) compared to 37% viewing credit as occasionally necessary, and 10% as a convenient way of buying things. Even amongst those with current borrowing, 39% believed that credit is never a good thing, compared to 76% of those not currently using credit.
- Overall, 60% of those with any form of borrowing were keeping up with their repayments without any difficulty, with only 6% in 'real difficulty' with their repayments. However, the figure rose to 17% for those with more than £500 of high-cost credit, meaning that around one in five of those with average levels of borrowing from high cost credit were in real difficulties with repayments. Among these heavy users of high-cost credit, 31% were keeping up with their commitments with no trouble, compared to 42% of those with a similar level of mainstream borrowing. 38% of these high-cost borrowers struggled from time-to-time, as opposed to 34% of mainstream borrowers (£500+). 13% of these high-cost borrowers found it a constant struggle, as did the same proportion of mainstream credit users.
- When asked about the cost of different types of credit, 50% regarded home credit as high-cost (2% as low cost), with 70% of those using home credit classing it as high-cost. 40% identified pawnbrokers as high-cost (2% low cost); 50% of those using the services of a pawnbroker said this was high-cost credit source. 36% identified mail order as high-cost (10% low cost); however only 29% of those actually using mail order identified this as high-cost.
- 21% of respondents identified credit union loans as being low-cost (9% high-cost, 10% in the middle). However, awareness was low, with 60% having no perception of the level of their charges.

## **Implications**

- The breakdown of attitudes towards borrowing differs somewhat from the findings of other research.<sup>3</sup> In particular, the proportion of people in this survey viewing credit as “never a good thing” was significantly higher (51% compared to 31% of the sample in the DTI research). However, this may be expected given that this is a sample of people on low incomes, who are generally less positive about credit use.
- In many cases holding this attitude has not actually prevented people from using credit products, which suggests that many people in these areas are using credit as a necessity even though they would naturally prefer not to.
- Where respondents are using high cost credit products, they may be aware of the high cost they are paying. In such cases, they may believe that they lack alternatives, or be prepared to pay the high cost for the convenience (for example, home collection).
- However, a large proportion of respondents (50-65%) were identifying home credit, pawnbrokers and mail order as medium or low cost, or were not able to provide an estimate. Therefore, it is clear that many people are not aware of the comparative costs of different types of credit.
- The large proportion of respondents with no awareness of the cost of a credit union or CDFI loan suggests that there is significant work to be done to promote and increase awareness of such loans in areas where they are available.

## **2. Sources of borrowing by low-income groups**

- 70% of respondents had some form of current borrowing at the time of interview.<sup>4</sup>
- 41% of those interviewed were using high-cost non-mainstream credit<sup>5</sup>, with the most common sources being mail order (25%); home credit (12%); and non-bank (sub-prime) credit cards (9%).
- 46% were using some form of mainstream credit<sup>6</sup>, just under half of whom were also borrowing from high cost sources.

---

<sup>3</sup> Research by Elaine Kempson for the DTI in 2002 found that 31% of people believed that credit is never a good thing, compared with 45% viewing credit as occasionally necessary, and 22% as a convenient or sensible way of buying things. *Over-indebtedness in Britain*, Department of Trade and Industry, 2002.

<sup>4</sup> 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 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.

<sup>5</sup> This category was defined as including the following types of credit: Agency mail order; home credit; non-bank credit cards; hire-purchase from Brighthouse; buy-back shops; pawnbrokers; pay day loans/cheque cashing; and unlicensed lenders.

- 5% of respondents had a current loan from the Social Fund.
- 1% had a credit union or CDFI loan.

### Implications

- Current usage of credit amongst those sampled was significantly higher amongst those sampled compared with research with a nationally representative sample of all low-income consumers. This includes research commissioned by the Taskforce from BMRB<sup>7</sup> which found that 34% of all respondents, and 26% of low income households<sup>8</sup>, had a current credit agreement or loan outstanding.
- There may be a number of reasons for this related to the profile of respondents and areas selected for sampling for this research. However, the finding also suggests that the Growth Fund is being delivered in areas where there may be higher than usual levels of demand for credit.
- The very low usage of third sector lenders is in line with findings from other surveys. It is important to note that in many cases, lenders receiving funding from the Growth Fund are delivering the service to new areas within their common bond in which they were not previously active. In these cases, the baseline survey would not be expected to pick up any current usage. It will be important for the Taskforce to monitor any change to the baseline in this respect in future waves of the survey.
- The finding that a significant proportion of respondents were using high-cost and mainstream credit products in combination confirms the complex picture of credit usage by low-income households shown in other research, and that products such as mail order and home credit are not used only by those without access to mainstream credit products. Gender may be a factor here, with high-cost credit products being more commonly used amongst women, and mainstream products more commonly used amongst men.

### **3. Demographic factors influencing type of credit used**

- Overall 20% of respondents were using only high cost credit products and 25% only mainstream credit products. 21% of respondents were using a combination of both, with 34% not using any of these credit products.<sup>9</sup>

---

<sup>6</sup> This category was defined as including the following types of credit: credit cards from banks/building societies; agreed overdraft facilities; personal loans from banks/building societies; store cards; HP agreements; and secured loans.

<sup>7</sup> *Access to financial services by those on the margins of banking*, Financial Inclusion Taskforce, November 2006.

<sup>8</sup> Defined as less than £10,000

<sup>9</sup> This breakdown excludes usage of the social fund and third sector lenders.

- Those using only high-cost credit products were more likely to be women (24% compared to 14% of men), to have children (36% compared to 19% of those without), to be unemployed (32% compared to 14% of full-time workers), and without a bank account (34% compared to 17% of account holders).
- Those using only mainstream credit were more likely to be full-time workers (37% compared to 15% of unemployed) and to have a mortgage (40% compared to 16% of social renters).
- Women were more likely to be users of both types of credit than men (22% and 18% respectively). 26% of those who are married use both types, compared to 15% of those who are single. 30% of full- and part-time workers use both, compared to just 13% of the retired. Those with children are much more likely to be users of both than those without: 30% and 16% respectively.
- Those not using any credit were more likely to be elderly (54% of over 65s compared to 26% of under-65s), and households without children (42% compared to 20% of households with children).

### Implications

- The research highlights the fact that there are some distinct demographic differences between those using high-cost credit and mainstream credit. This suggests that there is no clear picture of whole postcode areas lacking access to mainstream credit, rather there are particular groups within these areas who either lack access, or due to demand factors such as social and cultural preferences, choose to use non-mainstream credit or to refrain from borrowing altogether.

### **4. Usage and awareness of non-mainstream credit products**

- 41% of respondents were using some form of high-cost credit, just under half of whom were also borrowing from mainstream sources.
- Amongst the 41% of all respondents using a high-cost credit source, a fifth had borrowed only £50 or less (from these sources), but 10% had borrowed more than £1000. The mean value of borrowing from these sources was £582.
- The most popular source was mail order, used by 25% of all respondents, 30% of women, 36% in rural areas, and 33% of households with children. A further 39% had used mail order in the past.

- 9% of those taking part in the survey were using non-bank (sub-prime) credit cards. Amongst these users, the average balance outstanding was £1,131, with an average monthly spend of £182.
- Home credit was being used by 12% of those questioned, 14% of women, and 32% of households with 3 or more children. A further 18% had used home credit in the past. The mean value of a home credit loan was £433.
- Different forms of credit were being used for different purposes. Home credit was most commonly used to pay for Christmas or birthday gifts (22%) or children's clothes (15%). 33% of mail order users purchased adults clothes, followed by children's clothes (16%). Non-bank credit cards were most commonly used for food/groceries (33%), followed by adults' clothes (23%).

### Implications

- The findings on usage and the reasons for usage are comparable with other surveys. Recent research has shown that 6% of those in the poorest fifth of UK households have used home credit in the past 12 months, and that agency mail order is one of the most popular sources of credit for those on low incomes, used by over 20 per cent of low income households in 2004.<sup>10</sup>
- The higher usage of many high cost credit products amongst women suggests that gender is an important factor, and reinforces other research that social and cultural factors, for example the local presence of agents, and the value attached to home collection, are important factors in explaining the attraction of these sources.
- The findings confirm that high-cost credit is often used to manage lumpy expenditure, particularly at Christmas, or buying new school uniforms for children. This also has implications for the use of savings products, as in many cases putting aside a small amount of saving, for example using a Christmas saving scheme, could be an alternative to the use of credit.<sup>11</sup>

### **5. Access to mainstream credit**

- 46% of respondents were using some form of mainstream credit (just under half of these were also using high cost credit).
- The most widely used sources were bank/building society credit cards (29% currently using, and a further 13% with previous use); agreed overdrafts (24% currently using and a further 10% with previous use); and personal loans from banks/ building societies (11% currently and 16% with previous use).

---

<sup>10</sup> *Affordable credit: the way forward*, Sharon Collard and Elaine Kempson, February 2005

<sup>11</sup> See also *Review of Christmas Saving Schemes*, Brian Pomeroy for HM Treasury (March 2007)

- Credit card ownership was much more common amongst those in employment (42% compared to 18% of unemployed) those with a mortgage (46% compared to 20% of social renters), and those with higher incomes (42% amongst those with an income of £20,000+ compared to 19% with an income of less than £5000. Usage of agreed overdrafts reflected a similar profile.
- Amongst those not using mainstream credit sources, 71% cited reasons related to choice, either not wanting to use credit or fearing running up big debts. 41% cited reasons related to eligibility, thinking that these products would not be available to them. Some respondents cited a mixture of both factors.
- Of those not wanting to use these specific mainstream credit sources out of choice, a third (31%) were making use of some form of high-cost credit. Of those not using mainstream credit due to eligibility-related reasons, half (54%) were using high-cost credit.
- Amongst those with mainstream borrowing, the mean value owed was £2,990, with 10% owing more than £5000.

### Implications

- The finding that even in pre-selected areas of high financial exclusion and deprivation, almost half of respondents were using some form of mainstream credit suggest that there is no blanket exclusion of particular areas, with exclusion being as much correlated with other indicators (income, working status, housing status etc) as postcode.
- The finding that the majority of those not using mainstream credit were doing so through choice supports the findings in other research commissioned by the Taskforce that demand-side factors are an important component of financial exclusion. For example, the BMRB research found that 70% of those without a bank account had chosen not to open one.<sup>12</sup> In addition, the finding that 41% also felt they would not be eligible for these credit products, suggests that perceptions of eligibility are also a barrier to the use of mainstream credit. In cases these beliefs may be misperceptions, but in others they may be based on prior experience of applying for credit, suggesting that supply remains an underlying issue.<sup>13</sup>
- Of those using any form of mainstream credit, just under half (45%) were also using at least one type of high-cost credit. Chief among these was mail order, used by a third (31%) of those with mainstream borrowings, with non-bank credit cards being used by 14%.

---

<sup>12</sup> *Access to financial services*, Financial Inclusion Taskforce

<sup>13</sup> See for example *Financial inclusion deliberative workshops*, Financial Inclusion Taskforce (May 2006)

## **6. The Social Fund**

- 5% of respondents had a current loan from the Social Fund at the time of interview, with the average amount to be repaid being £467. A further 9% said they had used the Social Fund in the past.
- Usage was highest amongst the young (12% of 25-34 year olds), the unemployed (18%), and families with three or more children (16%).
- There was a significant overlap with usage of high cost credit: 20% of those with a home credit loan also had a loan from the Social Fund, as did 16% of those with a Brighthouse hire-purchase agreement. 3% of those with a mainstream credit agreement or loan also had a social fund loan.

### Implications

- Usage of the social fund was somewhat lower than has been picked up in other research – 20% of low income respondents in a survey by Policis<sup>14</sup> had received a social fund loan or grant in the last 12 months. The reason for this is not clear.
- The fact that many users of the social fund were also using high cost sources of credit (and a smaller proportion also using mainstream credit) is consistent with other findings, and may not be surprising given the limits set on the size of social fund loans.

## **7. Third sector credit**

- 1% of all respondents were using third sector credit at the time of interview, with a further 1% having used this source of credit in the past.
- Average loan size of those using third sector credit was £1,068.
- Amongst all respondents, 13% were considering using third sector credit in the future.
- Of those that were not considering third sector credit, 55% had never heard of a credit union or CDFI/moneyline, though there wide variations between sampling points (between 26% and 75%).

### Implications

- Current usage of third sector credit in surveyed areas is very low – as noted above, this may not be surprising since many of the areas surveyed may not have previously had access to credit union or CDFI loans.
- The finding that over 50% of respondents had never heard of a credit union reinforces the need to market the services of credit unions and

---

<sup>14</sup> Cited in *Affordable Credit*, Collard and Kempson

CDFIs proactively – the Taskforce will monitor this figure carefully in subsequent surveys as an indicator of wider change in awareness of third sector credit in areas where a known supply is available.

- The wide variation in this figure between sample points suggests that some lenders (particularly those that are longer established) have a much higher profile than others, and it may be appropriate to seek ways to share the best practice of these lenders in communicating and marketing their services.

### ***8. Conclusion: Nature of the baseline and implications for monitoring the Growth Fund***

The main purpose of the baseline was to record existing levels of usage and awareness of third sector lenders in Growth Fund catchment areas. This survey had confirmed that existing use, and awareness, of affordable loans from third sector lenders is low in these areas, and it will be important to monitor changes against these baseline figures in future waves of the survey.

Additionally, the research has confirmed other findings that the usage of credit amongst low-income households is often a complex picture, with multiple sources of credit being used at different times and for different purposes. In addition to measuring the overall volume of lending through the Growth Fund, it will be important to track whether this leads to any corresponding change in the usage of other credit products in localities where Growth Fund lenders are active.