Management Scrutiny Committee
Policy Review 2011 – 2012

At What Cost? The Effects of High-Cost Credit and Illegal Loan Sharks on Local Communities

Draft Report

Contents

1 Foreword from the Chairman of the Committee 2

2 Introduction 3

3 Aim of Review 3

4 Terms of Reference 3

5 Membership of the Committee 3

6 Methods of Investigation 3

7 Findings of the Review 5

8 Conclusions 22

9 Recommendations 25

10 Acknowledgments 26

11 Background Papers 26

Appendix 1 – Month of Action 27

1 Foreword from the Chairman of the Committee

It gives me great pleasure to be able to introduce the Management Scrutiny Committee's policy review on illegal loan sharks and high-cost credit.

People borrow money every day from small common transactions for everyday living through to large sums for homes, cars and other expensive items. The majority of people will use fairly conventional means to borrow money such as credit cards, personal loans and mortgages, but there is an increasing trend towards high-cost credit and unlicensed lenders.

High-cost credit or payday loans have had a meteoric rise to prominence and are now very much in the consciousness of everyday people. They have a visible presence on the high street and in town centres as well as a prominent media profile through newspapers, TV and radio adverts. Many people see this type of loan as quick, convenient and hassle-free and for many, this is the case providing a quick fix in a crisis or helping to bridge a gap between paydays. However, this is not the situation for all and an increasing number of people are falling into serious debt as a result of falling behind with the payments and the crippling APR's of such loans.

There has been a lot of media coverage around payday loans and the tactics of these companies in targeting particular groups of people and rolling over loans when such individuals fall into further difficulties. It is as a result of pressure from MPs and this intense media spotlight that the Office of Fair Trading (OFT) has launched a review into 50 payday loan companies investigating if they are in fact deliberately targeting vulnerable people.

Loan sharks are the last resort for those who often see no way out of their ever deepening financial situation. They operate without a license from the OFT and therefore illegally provide money to people. Many loan sharks use techniques of intimidation, psychological threats and violence to exert control over their victims, and this can escalate to victims being involved in drug dealing, theft and prostitution to supplement payments to the loan shark. It is perhaps surprising then to learn that many victims initially view the loan shark as a friend or are recommended to them by one of their own friends.

The committee has gathered a wide range of views and evidence in undertaking this piece of work and is delighted that the Illegal Money Lending Team is working in Sunderland. This team together with key partners from across the city is looking to gather information and intelligence from communities and individuals that will lead to prosecutions, prison sentences and ultimately the removal of loan sharks from Sunderland.

Finally I would like to thank my colleagues on the Management Scrutiny Committee and all the officers and witnesses who have contributed to this piece of work. The issue is not going to go away, but if we as a council can work with our partners and other agencies we can provide viable options for people to make better informed choices about their own financial situation.

Councillor David Tate, Chair of the Management Scrutiny Committee

2 Introduction

2.1 At its meeting on 14th July, 2011 following discussions that had taken place at the Cabinet meeting held on 22nd June 2011 the Committee considered the possibility of a study into the effects on communities of high interest money lenders and illegal loan sharks.

3 Aim of the Review

3.1 To look at the various means by which people borrow money and the effects this can have on their lives and the wider communities in which they live.

4 Terms of Reference

4.1 The title of the review was agreed as 'At What Cost? The effects of high-cost credit and illegal money lending on local communities and its terms of reference were agreed as:

(a) To identify and understand the types of money lenders available to people living within Sunderland;

(b) To investigate and identify the overall levels of debt, the levels of interest charged and some of the selling techniques employed by money lenders;

(c) To explore the issues that members of the public face in relation to debt and the impact that money lending can have on individuals and communities as a whole, and;

(d) To look at examples of good practice from across the region and country in relation to the policy review.

5 Membership of the Committee

5.1 The membership of the Management Scrutiny Committee during the Municipal Year is outlined below:

Cllrs David Tate (Chair), Kath Rolph (Vice-Chair), Florence Anderson, Graeme Miller, Michael Mordey, Robert Oliver, Paul Stewart, Peter Walker, Susan Watson, Amy Wilson and Peter Wood.

6 Methods of Investigation

6.1 The approach to this work included a range of research methods namely:

(a) Desktop Research;
(b) Use of secondary research e.g. surveys, questionnaires;
(c) Evidence presented by key stakeholders;
(d) Evidence from members of the public at meetings or focus groups; and,
(e) Site Visits.

6.2 Throughout the course of the review process the committee gathered evidence from a number of key witnesses including:

(a) Tony Quigley – Head of the Illegal Money Lending Team (England)
(b) Richard Reading – Principal Trading Standards Officer
(c) Joan Reed – Strategic Change Manager
(d) Alan Caddick – Head of Housing
(e) Liz St Louis – Head of Customer Service and Development
(f) Justin Collins – Mortgage Rescue Officer
(g) Theresa Finch – Christians Against Poverty UK
(h) Gavin Hennessey – Bridges Community Bank
(i) Dorothy Gardner – Sunderland MIND
(j) Malcolm Hays – Hays Credit
(k) Neil Gillespie – Hays Credit
(l) Peter Kenyon – Ramsdens Financial Ltd
(m) Pallion Action Group
(n) Shiney Advice and Resource Project

6.3 All statements in this report are made based on information received from more than one source, unless it is clarified in the text that it is an individual view. Opinions held by a small number of people may or may not be representative of others' views but are worthy of consideration nevertheless.

7 Findings of the Review

Findings relate to the main themes raised during the committee's investigations and evidence gathering.

7.1 UK Debt: The Facts and Figures[1]

7.1.1 The total UK personal debt at the end of December 2011 stood at £1,451 trillion, with the average household debt being £7,948 (excluding mortgages) and £55,823 (including mortgages).

7.1.2 331 people a day, or every 4 minutes 21 seconds, someone will be declared insolvent or bankrupt while every 14 minutes 17 seconds a property is repossessed, meaning banks and building societies are writing off some £15.68m of loans on a daily basis.

7.1.3 The Citizen Advice Bureau deals with 8,652 new debt problems each working day and figures released by the Consumer Credit Counselling Service (CCCS) suggest that their average client has to work until 4pm on a Wednesday, each week, just to earn enough money to repay their unsecured debts. The average person contacting CCCS in 2010 owed a total of £22,476 in unsecured debt, and faced a monthly bill of £675.52 simply to meet repayments. This made up an alarming 58% of CCCS clients' average monthly earnings of £1,173.23 after tax.

7.1.4 Total credit card debt in December 2011 was £55.8bn. During November 2011 an average of 304 purchases were made in the UK every second using debit and credit cards, based on figures from the UK Cards Association. Furthermore on a daily basis, purchases using plastic cards were worth £1.252bn during November.

7.1.5 At a focus group Members were informed that Sunderland was typical of many cities across the UK in relation to public borrowing and levels of debt. However it was noted that the North East region was suffering from higher levels of unemployment than the countrywide average. It was also identified that there were a large number of credit sources within the city including 8 traditional pawnbrokers and a number of weekly payment companies such as Brighthouse, Payday loan companies and the Credit Union.

7.1.6 In Sunderland the average unsecured debt according to CCCS 2010 figures was £17,772 per individual, slightly below the North East average of £18,254. Breaking this down still further the CCCS identified that male unsecured debt in the region was on average £19,535 with Sunderland males again being slightly below this average with £18,921. The picture is very similar when looking at females with the North East average being £16,910 and Sunderland females having around £16,454 of unsecured debt.

7.1.7 The table below shows the debt enquires and amounts of debt handled between September 2010 and August 2011 by first tier contracted advice services in Sunderland. This first tier of contracted advice includes Citizens Advice Sunderland (based in Washington), Sunderland Advice Service (Sunderland North and Sunderland South), Sunderland Advice Project (Sunderland South) and Shiney Advice and Resource Project (Coalfields).

[1] Debt Statistics supplied by Credit Action

Month	No of debt enquiries	Amount of debt handled	Average amount of debt handled
Sept 2010	168	£472,238.75	£2,810.94
Oct 2010	131	£438,343.20	£3,346.13
Nov 2010	154	£333,419.50	£2,165.06
Dec 2010	119	£285,676.97	£2,400.65
Jan 2011	225	£1,195,191.68	£5,311.96
Feb 2011	201	£1,494,503.90	£7,435.34
March 2011	233	£1,302,262.63	£5,589.11
Apr 2011	105	£532,192.91	£5,068.50
May 2011	139	£884,722.12	£6,364.91
June 2011	169	£635,271.70	£3,759.00
July 2011	139	£659,900.00	£4,747.48
Aug 2011	131	£779,087.78	£5,947.23
Total	**1,914**	**£9,012,811.14**	**£4,708.89**

Figure 1: Debt Enquires to First Tier Contracted Advice Services in Sunderland
Source: Sunderland City Council

7.2 The Types of Loans and Borrowing available to Local People

7.2.1 Members recognised that there were a number of ways in which people can borrow money for the short, medium and long term and these are often dependent on a person's credit history, employment and risk to the lender. In order to gain a better understanding of the credit scene Members identified the principle routes for potential borrowers.

7.2.2 *Personal Loans*
Personal loans are clearly more suitable for borrowing larger sums of money over a longer term. Costs can vary across lenders and may depend on if the loan is secured or unsecured. Secured loans are borrowed against an asset such as a home or car, meaning if the person is unable to repay the loan, the lender can sell the asset to recoup their investment. You may be charged less interest on a secured loan but there may be extra fees. Unsecured Loans do not require such a guarantee but there is still a legal obligation to repay the loan. The lender can take court action to get recoup funds, and this could involve substantial costs and ultimately affect an individual's credit rating.

7.2.3 *Credit Unions*
Credit unions are owned and run by their members, for their members. Some credit unions may lend to individuals as soon as they become a member, while others will lend once an individual has shown the credit union that they are able to save regularly. The APR on their loans is capped by law at 26.8%, and they often charge much lower interest rates on loans than other lenders.

7.2.4 *Home Credit (Doorstep Lenders)*
Home credit, or a doorstep loan, is where an individual borrows money and the lender calls at their home to collect the repayments. The loans are usually for smaller amounts but can be charged at a high rate of interest for borrowing in this way. The law states that home credit lenders have to be licensed by the Office of Fair Trading (OFT). If someone is offering to lend money on the doorstep they must have a lender's licence or other authorisation, if they do not, then they are operating illegally.

7.2.5 *Social Fund Loans*
Certain benefits entitle a person to help from the Social Fund for one-off expenses. Pay back of the loan is still required but there are no interest charges. These usually take the form of a crisis loan to help with an emergency, or a budgeting loan to help with vital costs like food and clothing or funeral payments.

7.2.6 *Payday Loans*
A payday loan is a cash advance that is loaned over a short period of time, usually until the next payday. Each year some 1.2 million people in the UK resort to payday loans as a temporary means of getting by and a total of £1.2 billion is borrowed in the form of such loans every year. Taking out a payday loan is meant to be a temporary measure. Short term loans that are not paid back in time will accrue huge interest rates, and debts can quickly spiral out of control. Some of the better known payday loan companies charge interest rates of over 2,500% APR. One of the biggest attractions of the payday loan is that anyone can apply for one no matter what credit rating. For most payday loans the only eligibility criteria is to be resident in the UK, over 18 years old, have a job with a regular payday and an active bank account. Other attractions of such products are centered on the convenience and speed of the application process.

7.2.7 *Pawnbrokers*[2]
The origins of pawnbroking can be traced back over 3,000 years to the Chinese, and the industry as we know it today can be traced back to fifteenth century Italy and the noble Medici family. Pawnbrokers, like banks, earn their income on the interest charged on loans secured by a pledged item. Goods are accepted into pawn following an on-the-spot valuation of goods. The customer and pawnbroker will then agree a sum to be advanced and the pawnbroker presents a completed document known as pre contract information. It allows the customer to confirm that they are happy to accept the terms of the loan, and if this is the case the customer then signs the actual agreement which provides details of their rights and protection under the Consumer Credit Act 1974 as well as the terms and conditions of the loan. The customer also receives as part of the document itself a pawn-receipt for presentation when redeeming the goods. Such agreements are for a minimum period of 6 months and customers have the right to withdraw from the agreement within 14 days as well as making partial or full early repayments.

7.2.8 When the loan and the interest are paid, the goods are returned to the customer. If the customer has not repaid the loan during this time and the loan was over £100 he will receive notice that the property is due to be sold giving him a further statutory period of 14 days in which to redeem. The pawnbroker must obtain the true market value on the date of sale ensuring a fair price is obtained for the customer, with any amount over that due to the pawnbroker going back to the customer. Contrary to popular myth, only where the loan is for less than £75 does the pawnbroker gain title to the goods,

7.2.9 *Rent-to-Buy Retail Credit*
A hire purchase, or rent-to-buy, agreement is a mechanism for borrowing money in order to make a purchase of goods that cannot be afforded outright. A hire purchase agreement is a form of secured loan that gives the lender certain rights over the borrower by their entitlement to repossess the goods in certain circumstances, until the HP agreement has been completed. Hire purchase

[2] Information supplied by The National Pawnbrokers Association of the UK

agreements are governed by the Consumer Credit Act 1974, and the goods hired are governed by the Supply of Goods (Implied) Act 1973. Some of the biggest high-street names in this area include BrightHouse and CashConverters. With an HP agreement the goods are hired to the borrower for a specified period of time, in which the consumer will have to pay weekly or monthly payments towards the total amount payable. The total amount payable is based on the cash price of the goods, plus interest over the period of the agreement and any additional charges which may be levied on top. The goods remain the property of the lender until the HP agreement has been completed in full.

7.2.10 *Logbook Loans*
Logbook loans are secured on a car or similar vehicle that is in the ownership of the borrower. This means that if a payment is missed, the lender may repossess the vehicle. A 'bill of sale' agreement is signed transferring ownership of the vehicle to the lender. The lender also keeps the registration documents and they own the car until the loan is paid off in full. These types of loans usually have a very high rate of interest (APR typically 300-500%) and are a very risky way to borrow money due to the fact that the lender does not require a court order to repossess the vehicle. Also if the vehicle sells for less than the amount owed on the loan, the remaining balance is still an outstanding debt.

7.2.11 *Illegal Money Lending (Loan Sharks)*
Loan sharks are people who lend money without a licence from the Office of Fair Trading. Loan sharks are often well known in the community and source their customers through word of mouth. As loan sharks are not licensed they operate outside the law and are very likely to offer a loan on very bad terms with extortionate rates of interest, resort to harassment and threats of violence if a borrower gets behind with repayments and will apply pressure into borrowing more from them to repay one debt with another. It should not be underestimated that people involved in illegal money lending practices will invariably be involved in other illegal activities too.

7.2.12 It can be seen that there are a number of avenues available to individuals in relation to the borrowing of money which range from the very traditional routes of banks and building societies, through new thriving enterprises including payday loans to the illegal practices of loan sharks. One of the key issues, as this review will highlight, is that for many the traditional and safer routes are often unavailable due to credit history or other circumstances leading many to borrow money from other types of borrowers and take less conventional routes.

7.3 High-Cost Credit

7.3.1 The consumer credit landscape has changed significantly in recent years, with the traditional routes of lending through banks and financial institutions being scaled back. According to the Bank of England between 2007 and 2009 the amount of unsecured credit being offered by lenders had declined every quarter and has not picked up.[3] However, for high-cost credit the story is very different. High-cost credit has witnessed substantial growth while the more traditional routes have reduced, with some provision continuing to grow through these difficult times. Payday loans have seen the fastest growth, but there has also been growth in home credit providers, pawnbrokers and rent-to-own credit. The latter in particular seems to

[3] Bank of England 2011 Credit Conditions Survey: Survey Results Quarter 3

have established a small, but significant position in the provision of credit to low income households[4].

7.3.2 As already reported the rate of personal insolvencies is around four times higher than in 2004, and during 2010 reached an all time high. The growth in personal insolvencies could be mirrored by an increasing number of people who have reached the end of the line in accessing credit through formal, licensed routes. Barnardo's recognised that this problem could get worse once the country begins a sustained economic recovery, as lenders look to pursue debts accumulated when the economy was struggling, similar to previous recessions. One of the key drivers for individuals accessing unlicensed credit is their inability to access traditional routes and licensed credit providers. The best available estimates indicated that 4% of those who are refused credit from elsewhere turn to illegal lenders, and that 82% of those that access unlicensed credit do so because they have no other choice in relation to credit.

7.3.3 In speaking with Credit Providers, Members of the Committee discovered that the typical client profile was one of a low income family that was state dependent, with the vast majority living in rented accommodation. The gender split on average being 60% female and 40% male with a typical borrowing sum of between £200 and £300.

7.3.4 The credit providers also highlighted the importance of the relationship between their agent and the borrower. Members were informed that typically agents working for the credit provider lived in and around the area that they worked in. Interestingly agents were typically female age between 35 and 65 and worked on a part-time basis. It was also reported that the majority of clients preferred home collection (80-90%) with only a small number coming into the office to pay their weekly amounts.

7.3.5 Perhaps one of the most interesting things that members discovered speaking to credit providers, operating in Sunderland, was around their bad debt performance. Hays Credit informed the committee that they rejected on average 85% of new credit applications, and every prospective new client was subject to a credit reference check and home visit. It was noted that the company had a large number of repeat client business. It was also noted that Hays Credit had very minimal default charges and were very receptive to the up and down nature of their client's finances and circumstances. Also the company's local collection agents were in a good position to assess client's individual circumstances. Ramsden's Finance also highlighted the high decline rate of their company and it was noted that 90% of new applicants were declined. Again a lot of the company's business was repeat custom from a trusted client base.

7.3.6 Both companies used a simple application form followed by credit reference checks that included checks against bankruptcy and insolvency to confirm the information on the application form. An assessment was then made on the information collected. Members were informed that the process typically took 72hrs, but for existing customers this could be an almost instant decision. The credit providers did stress that there was a greater risk for bigger companies with much higher default rates. Members noted that very often these larger PLC businesses were driven by investors and the necessity to continually increase their customer base and volume of lending.

[4] A Vicious Cycle 2011: The Heavy Burden of Credit on Low Income Families. Barnardo's

7.3.7 With the high decline rate for new credit applications highlighted by the credit providers interviewed there was a concern that this was reducing the options for some borrowers still further leaving them with fewer opportunities. It was perhaps an option that local credit providers when rejecting borrowers could signpost these individuals to the local authority who could then provide advice and guidance on financial issues. In working collaboratively with reputable service providers could help to reduce those borrowers using the higher-end credit providers or resorting to illegal moneylenders. This will not stop borrowers using such means but it could give individuals who are actively looking to borrow money the information to make a more informed choice.

7.3.8 Payday loans have emerged as a major source of credit in the UK over the last few years for many people who need money to bridge the gap between one payday and the next. According to research around 55% of payday loan users are under the age of 35 and 60% are not married or cohabitating, with approximately 70% have a household income less than £24,500. It is also interesting to note that the majority of UK payday loan borrowers are based outside of London and the South East of England, with most being in the North of England and Scotland closely matching the income and socio-economic traits of borrowers.

7.3.9 Many payday loan borrowers are or have been in debt, with the situation exacerbated by the global financial crisis and recent recession. The banking crisis has also had an effect in two ways on the way people look to borrow money. In the first instance due to the crisis, banks have become more reluctant to lend money and have tightened up their procedures making it more a more difficult and rigorous process to borrow from traditional financial institutions. Secondly the ease and quickness of payday loans are seen by many as their main attraction, and if paid off in time such loans are very often seen as the ideal short-term solution.

7.3.10 Research has indicated that many borrowers use payday loans due to this speed and ease but just as much a draw is the anonymity of the process and in particular the on-line access to funds.[5] In speaking with credit providers it was their view that customers on a low income/budget were generally good with money, through necessity. Members believed in the importance of developing the financial literacy of people and the importance of getting into schools and making young people more financially aware. It was acknowledged that people will make choices about their own financial situations, and as stated many will make the right decisions but it was important to help or facilitate them to make more informed choices. Bridget Phillipson MP also reported that in speaking with constituents they are overwhelmingly in favour of action to regulate, protect and educate people about the risks of high-interest credit. One of the key issues emerging from this review is about how people can be made to think differently about credit, debt and other financial matters.

7.3.11 Members recognised that the whole issue was a family learning issue and it was reported that the West Yorkshire Trading Standards team had held workshops with family groups to support people and families in relation to financial awareness. Throughout the evidence gathering for the review it was clearly identifiable that there was a role for the information and guidance that the Council offers to its customers and that it would be important in these financially difficult times to develop our customer services appropriately. It was also felt to be important to consider how the council works in conjunction with the voluntary sector and the

[5] Keeping the plates spinning: Perceptions of payday loans in Great Britian. Consumer Focus. 2010

wealth of support networks that currently exist. It was suggested that the idea of Sunderland's Trading Standards and Welfare Rights Teams could work jointly to provide some tailored workshops around financial awareness.

7.3.12 The rent-to-own market, as already mentioned, is a sector of steady growth with those relying on such schemes paying high interest rates, as well as the initial product often being higher in price compared to prices available from other retail outlets. In taking a random product of a fridge freezer it is interesting to note that using rent-to-own could potentially cost an individual up to £1,195.44 more than if bought from a major high street retailer. A high street purchase of a Samsung fridge freezer with additional warranty would cost £597.00 outright compared to a rent-to-own purchase which would work out at a maximum £1792.44. This includes the purchase price of £703.29, the cost of credit at £309.15, the optional service care at £546.30 and content cover for the product at £234 for the term of the agreement[6].

7.4 The Office of Fair Trading - Review into High-Cost Consumer Credit

7.4.1 The Office of Fair Trading (OFT) conducted a review into the high cost credit sector and published their findings in June 2010. This review was launched due to concerns that consumers of high-cost credit, including many on low incomes, suffered from a lack of options when seeking credit, that the price individuals paid for credit was too high, and that the recession had limited suppliers' willingness to lend money. The report identified the high-cost credit sector as consisting of pawnbroking, payday and other short-term small sum loans, home credit and rent-to-buy credit. The report also acknowledged that this was a significant and valuable sector in the economy with loans to consumers totalling £7.5 billion in 2008.

7.4.2 The OFT review highlighted some key features and similarities within the high-cost credit marketplace including consumers need for credit, a limited tendency to search out the most suitable product or option, lower than average levels of income, and poor or no credit history. High cost credit is expensive by its very nature and this is primarily due to the low value of the loan resulting in higher administration costs per loan, high-cost business models and the incidence of missed, late payments and bad debts.

7.4.3 The OFT also concluded that the markets for high-cost credit worked reasonably well due to a number of factors including:

(a) suppliers met the demand for easier access to their products;
(b) they filled a gap in the market not served fully by mainstream suppliers;
(c) the level of complaints from consumers is low; and,
(d) in some cases lenders show flexibility with repayment difficulties and do not penalise borrowers for missed or late payments.

7.4.4 The review also identified issues with the effectiveness of competition in these markets as follows:

(a) on the demand side – there is a relatively low ability for consumers to drive competition between suppliers due to their low levels of financial capability;
(b) on the supply side – there is a limited supply of additional sources of credit particularly from mainstream suppliers; and,

[6] Prices correct at 28 February 2012

(c) competition on price is limited and some suppliers appear to be charging higher prices than expected.

7.4.5 The OFT review made recommendations around four major themes as follows:

(a) help consumers make informed decisions on high-cost credit;
(b) increase the ability for consumers to build up a documented credit history when using high-cost credit;
(c) enhance the understanding of developments in the high-cost credit sector; and,
(d) promote best practice among suppliers of high-cost credit.

7.4.6 The OFT ultimately concluded that, in a number of respects, these markets worked reasonably well. However, it argued that many of the problems in such markets arose from more deep-seated issues, such as weaknesses in the financial capability of consumers, and any recommendations made by the OFT would only make limited differences. The OFT also considered the case for price controls for pawnbroking, payday loans, home credit and rent-to-buy credit and concluded that such measures would not be an appropriate solution to the particular problems found in these high cost credit markets.

7.4.7 The OFT found in its review that competition and greater customer education would force high-cost credit providers to reduce rates but many MP's argue that there is little competition between such lenders. In fact four companies dominate the home credit market with Provident Financial Plc having 70% of the market share[7]. This was endorsed by the Management Scrutiny Committee review which when speaking to Pallion Action Group it was identified that a majority of residents had Provident loans in the area. There was also little evidence that consumer awareness was the problem and research conducted by Church Action on Poverty suggested that people had taken out high-cost loans knowing the risks, but continued regardless because they were unable to get a loan anywhere else.

7.4.8 The OFT review also highlighted that criticising payday loans and doorstep lending based on APR was unfair as annual rates and short-term loan solutions would always look expensive. However it was also argued that a better measure of the cost of credit was the 'total cost of credit', with door-to-door lenders charging £82 for every £100 borrowed. This can be even higher should individuals roll over their borrowing.[5]

7.5 The Impact of High Cost Credit on individuals and Communities

7.5.1 For many the use of payday loans, pawnbrokers or doorstep credit is a very positive experience. Speaking with credit providers it was found that there can be a fairly even split between using such loans out of necessity or for a one-off or luxury purchase. Some people use instant loans for a one-off purchase, (holidays, luxury goods etc) and such consumers can be infrequent or one-off users of such services. However as already highlighted for many people it is difficult to survive to the end of the month on salaries or benefit payments alone and short-term loans can provide that bridge between paydays, and as long as they are paid off in time can be of financial help.

[7] MP Accountability Network January 2011 Briefing 2: High-Cost Credit

“I have had 3 loans now with this company and I have nothing but praise for them. Great customer service, fast deposits and discrete. I have always paid my loans on time so I can't say what they are like if you fall behind. My opinion is they are great and I would recommend. Thanks very much.”

Payday Loan Customer – Internet Comment

7.5.2 Sadly many people are already facing financial difficulties and such loans are an added strain on their lives, gradually paying more and more as debts increase. Archetypal ‘Alices’ – the asset limited, income-constrained employees are the key target group for short-term, high-cost loan companies. Many consumers can end up in a cycle of having to borrow more and more in order to pay back their existing debt, with some borrowers even accessing loans from several payday companies at the same time, adding to their overall repayment problem. Citizens Advice reports seeing many clients with 5 or 10 loans that they simply are not going to be able to pay back. Lenders are happy to allow loans to roll over from one repayment period to the next with added interest.

7.5.3 The proliferation of payday lenders is also a concern at national level and Sharon Hughes MP reported to the Committee that recent research by R3, a group which represents debt advisers, showed that nearly a third of people who took out payday loans had to get another to pay it off. The research also found that around 3.5 million people in the UK are expected to take one out during the first half of this year.

“*A friend of mine has been using payday loans for some time now, it started with a loan of around £100, he doesn't earn a lot and thought he was desperate for the money, he made the repayment as agreed at the end of the month. His low wage and high outgoings meant that he again had to borrow just to survive the month. This continued and is still the case today, every month he pays back he again needs to borrow, due to the high levels of interest the loan amounts had to increase to what is now £600 per month! About 70% of his total monthly income. The interest on this is high and he now finds himself in an impossible cycle that he cannot recover from.”*

Payday loan comment - Internet

7.5.3 The impact of this on borrowers can often mean that paying back loans was at the detriment of other debts, leading to default charges and further financial burdens. As well as the obvious financial problems, it can provide individuals with health related issues brought on through emotional stress and anxiety. There can also be an embarrassment factor associated with default payments or taking out repeat or multiple loans. It should be noted that some payday loan companies will resort to a variety of methods in order to get their payments including taking money out of borrowers accounts and contacting clients at their place of employment.

“Had a loan with this company and when I fell into financial difficulty I explained that I was unable to pay, they phoned my work every day, mobile every day and even left a message at my work saying someone in their company had traveled from London to Manchester and was waiting to meet with me at a hotel near my work?”

Payday loan comment – Internet

7.5.4 The MP for Washington and Sunderland West also highlighted the proliferation of high cost credit walk-in shops in city centres and other commercial areas and believed that it would be beneficial to the residents of Sunderland if these could be discouraged within the statutory guidance on planning and business rates. The MP acknowledges that a new outlet will provide a number of jobs but adversely having such outlets easily accessible by residents will only serve to encourage the take-up of high-cost credit and unsustainable debt. There was also acknowledgement that this was an on-line growth area and there were limits to what the council can do to limit exposure of residents to such options. The MP felt that the council could be most useful in providing accessible advice both on debt management and the range of lending options available locally.

7.5.5 Further to this the MP for Houghton and Sunderland South commented that high cost personal debt was a serious problem for constituents with 84% needing help from the Citizens Advice Bureau on debt related issues. Also, based on year-on-year comparisons, debt relief orders had increased by 15% and telephone/broadband debts by 12%[8], highlighting the importance of these issues as more and more services become accessible only online.

7.6 Illegal Money Lending

7.6.1 Illegal moneylending covers a range of activities, from persons that are actually licensed but are acting unlawfully, to the extreme of a person offering cash loans without being licensed at all (Loan Sharks). Loan Shark activity is characterised by deliberate criminal fraud and theft, with extortionate rates of interest on loans that mean borrowers face demands for payment of thousands of pounds more than they borrowed and can often never pay off the loans. Borrowers who fail to pay or refuse to pay are subject to intimidation, theft, forced prostitution and other, extreme physical violence.

Example of Loan Shark Practice 1: AF went to a loan shark when he wanted £100 to buy a car stereo that was on special offer. He agreed to pay back the entire sum several days later, and was charged £20 interest. AF, 26, of Stoke-on-Trent, had successfully borrowed money from a loan shark in the past, but on this occasion failed to pay the full amount owed on the due date, so the lender doubled the interest charge. As the debt mounted, AF found it increasingly difficult to repay the growing amounts, and missed more payments, ending up being charged £100 interest every day. Eventually the entire loan had reached £1,000 and AF was threatened with having his legs broken if he didn't pay up.

7.6.2 Statistics related to the victims of loan sharks builds a profile of the types of people who are most at risk of falling victim to such practices. Members of the committee identified the characteristics as follows:

- 65% are female;
- 75% are on benefits;
- 82% are without home contents insurance;
- 75% live in rented accommodation;
- 12% are home owners (an emerging trend);
- 56% live in social housing and 19% in private rented;
- 63% are unemployed, and;
- 18% are self employed.

7.6.3 Members, through their evidence gathering, also noted that 70% of the people that use loan sharks needed to purchase something essential for everyday life with the

[8] Citizen Advice Bureau Constituency Report: Houghton and Sunderland South 2010/2011

remaining 30% having some kind of addiction including gambling, alcohol or drug dependency. Also in looking at statistics it was interesting at this point to note some of the underlying reasons why people had used loan sharks and how they had come into contact with them:

- 78% found the loan shark through a friend;
- 46% had borrowed before;
- 44% knew the loan shark before borrowing;
- 46% tried to borrow elsewhere first;
- 66% had other debts (average £7k+);
- 28% had had other benefits check, and;
- 46% considered the loan shark a friend.

7.6.4 It can be seen that illegal money lenders are the lenders of last resort although alarmingly 46% considered the loan shark to be a friend and a massive 78% of victims finding loan sharks through friends paints a worrying picture. Accessing credit in this way can be at great financial and personal cost. The National Local Government Network has already estimated that illegal lending may rise from 65,000 to 200,000 cases per year, as a result of the economic downturn.

7.6.5 An Illegal Money Lending Team was established within Birmingham Trading Standards as a pilot project in England, one of only two in Great Britain; the other pilot area being Glasgow – covering Scotland. The remit of the team is to investigate illegal money lending activity, establish if a problem exists and, if so, bring to justice those persons carrying on this activity. The team is made up of highly experienced investigators with a broad range of backgrounds and investigative skills.

7.6.6 The scheme, initially working across the Midlands, has already been extended to cover the North West, East of England, South East and Yorkshire and the Humber areas. Funding for the project is provided from the Financial Inclusion Fund administered by HM Treasury and managed by BIS. HM Treasury and BIS announced that, due to the success of the Birmingham team, funding will continue and can be used to roll out to other authorities. On 29 December 2010, the then, Business Minister Edward Davey announced that £5.2 million in funds will be available to continue the national illegal money lending project for 2011/12 through trading standards services.

7.6.7 In addition, the Minister also announced that BIS intended to restructure the project by moving to a three national team model. The Minister indicated that BIS were looking to maintain front line services whilst providing a value for money project. The English team will be hosted by Birmingham City Council and will continue to provide a resource to investigate illegal money lending across England. Birmingham was chosen to lead the new, England team due to the efficiencies associated with the expansion. This was favoured against the creation of a brand new team that would attract high development and set up costs. Centralising national services was considered to be crucial. The team, based in Birmingham, will continue to operate a “parachute in and out model”, with a local presence being provided through regional officers; this being the option recommended by recent research commissioned through Policis, an independent research consultancy.

7.6.8 The official launch of the Illegal Money Lending Team in Sunderland took place on Tuesday 8th November 2011 at the Sunderland Glass Centre. The launch saw a number of presentations and group discussions around the practice of illegal money lending and how agencies and individuals can help spread the team's message.

7.6.9 Members of the Committee met with Members of the Illegal Money Lending Team to discuss their work and the success rates in terms of stopping illegal money lenders operating in England, Scotland and Wales. It was interesting for the committee to note that upto January 2011 the Illegal Money Lending Team had:

- identified over 1,700 illegal lenders;
- arrested over 500 illegal money lenders (loan sharks);
- written off over £37 million of illegal debts (money victims would have paid back to illegal lenders if the team had not acted);
- brought over 182 prosecutions had been brought resulting in prison sentences totalling over 107 years and one indefinite sentence;
- helped over 16,000 victims of loan sharks including the most hard to reach individuals; and,
- referred over 600 victims had been referred to alternate (legal) sources of financial support.

Example of Loan Shark Practice 2: BS, aged 22 years old, had initially borrowed just £300 from a loan shark but this quickly rose to £3400 over a 12 week period. During this time, BS was frequently threatened and intimidated by the loan shark and his associates; the loan shark used BS's vulnerability to charge unrealistic interest rates. On a 4 week cycle, the loan shark would lend BS money to pay off earlier debts, charging a higher interest rate each time. In just 12 weeks, his debt had gone from £300 to £3400, leaving BS helpless. The use of threats and intimidation ultimately lead BS to take his own life on 3rd December 2005.

7.6.10 The IML Team informed Members of the Committee that Sunderland Mosaic demographic data would assist the team in terms of targeting resources on those neighbourhoods that fit the socio-economic pattern for loan shark activity, including Hendon, Sandhill, Redhill and Washington North. Targeted activities would include leaflet drops, poster displays and working with agencies already established in the areas to gather that all important intelligence. Members were informed that the IML Team recognised the benefits of trend analysis and by using the Mosaic tool would be able to identify likely hotspots and victims in particular areas. It was noted that a common trait of loan sharks was to target single mothers and seek payment through sexual favours.

7.6.11 It was also noted that Sunderland City Council had undertaken a month of action to raise awareness of the illegal money lending team working in Sunderland. As a result of this month of action an action plan was in development with a number of interested parties. **Appendix 1** of this report provides an overview of some of the key activities during the month of action. It was also noted that there was constant communications activity with the IML Team Liaison Officer assigned to the Council. Members suggested that the action plan could be reported back through the scrutiny committee as a way to monitor progress, development and achievements in relation to this issue.

7.6.12 Members also highlighted the importance of training for groups and organisations who were in regular contact with local people in order to be aware of issues, triggers to look for and ways to support victims of illegal money lending. Members also recognised the area committees and community news as potential vehicles to promote the message of the IML Team and the work it does.

7.7 The Impact of Illegal Money Lending on Individuals and Communities

7.7.1 The consequences of borrowing from a loan shark for individuals are great and the damage loan sharks can cause to communities they operate in is immense. Illegal money lending only strengthens financial and social exclusion, through weakening already limited family budgets and increasing anti-social behaviours. As already highlighted and discussed with the IML Team those unable to pay loan sharks find themselves under increasing pressure to become involved in degrading and criminal activities. The IML Team informed the Committee that activities experienced have included prostitution, drug dealing and stealing. The IML Team also reported that once a loan shark had been removed from an area there was a significant reduction in crime within the area.

7.7.2 Research conducted for the Department of Business, Innovations and Skills explains that most residents from deprived estates view illegal lenders as exploiting those who need money and the majority seeing this as also damaging to the community as a whole. However individuals who use loan sharks appear to have a different view seeing such operations providing a community service for those who can borrow from no other source.

7.7.3 As mentioned already, and an issue that has been raised in a number of focus groups, is the fact that borrowers susceptible to loan sharks generally have no access to legal forms of credit. Interestingly users of illegal credit tend to have more chaotic lifestyles than users of high-cost credit with a proportion having drug, alcohol or mental health problems.

7.7.4 Illegal money lending tends to occur in tight-knit communities with lenders well known within such communities through a strong social network. The IML Team informed the committee that relationships between borrowers and loan sharks will often start friendly and, as already highlighted loan sharks are often referred by friends and thought of by borrowers as friends. However the relationship will ultimately be based on fear, intimidation and violence.

7.7.5 The detrimental effect of loan sharks on individuals and communities can, as shown, be severe with rising crime, violence and nefarious activities taking place on resident's doorsteps. Breaking down community barriers is an important aspect of the IML Team's work, people need to see that there is support and solutions to their situation. The IML Team will 'piggyback' onto other community events or initiatives to get their message across often using promotional materials including beer mats, posters, business cards etc. It can be a slow process and it should not be forgotten that many of these people live in fear and their confidence is extremely low. The positive impact of the IML Team and the high profile publicity around convictions of loan sharks can provide the confidence for people to come forward and give information.

7.7.6 The IML Team also informed the Committee of the 'U' Choose Initiative which had been undertaken in Middlesbrough where the community had been empowered to decided upon how the proceeds of illegal money lending, seized in that area, should be used for the benefit of the local community as a whole. Members were advised that the intention was that this sort of initiative would be rolled out across other

Local Authorities. Other ways in which the proceeds of crime had been used had included the production of banners to inform communities of where they can get help from the Illegal Money Lending Team and the holding of community fun days where help and advice was also available.

7.7.7 The effects of illegal money lending on individuals and communities can also be measured by the impact of removing a loan shark from operation in an area. In their evaluation of the illegal money lending pilots, POLICIS found that in removing a loan shark, victims are spared the anxiety of having to find money to pay such debts. Also the relief this can bring from the constant worry can have positive benefits around mental health, quality of life and general well-being.

7.7.8 One of the key issues that emerged from sessions with ShARP, Pallion Action Group and the question and answer session that followed the Shontal Theatre Performance was around illegal money lenders being untouchable and potential safety issues for people coming forward. One of the key tasks of the Illegal Money Lending Team is to break down these barriers and while more and more individuals are coming forward the climate of fear and reprisals generated by illegal lenders is alive and well. With this in mind and in discussion with Pallion Action Group it is evident that the barriers to persuading victims to come forward do still remain.

7.7.9 Illegal money lenders do depend on their ability to control and intimidate their victims and it is this that provides the perception that they are beyond the remit of the law. This is a difficult barrier to overcome and relies heavily on the enforcement authorities' ability to put such individuals out of action. Although it will also be as much about community perceptions that lenders have been removed and sufficient time is given to allow such communities to move on. This is where the work of the Illegal Money Lending Team, Local Authority, local media and community and voluntary groups is most important. Once a lender has been removed it is important to flood that community with support, advice and guidance to allow them to move on and away from such a sphere of control.

7.8 Alternative Support and Provision

7.8.1 The Financial Services Authority (FSA) commissioned a baseline survey of financial capability which indicated that many people, regardless of background or income, lacked the ability to manage their finances effectively. In particular those on the lowest incomes (which included single parents, the unemployed and people on sickness or disability benefits) were least likely to cope financially.

7.8.2 There are a number of free debt advice services available to people which offer advice and guidance in dealing with mounting financial debts arising from among other sources traditional loans, high-cost credit and illegal lenders. However, there are also a rising number of paid for advice services offering debt consolidation solutions but taking up to 35% of an individuals disposable income to provide such solutions. The credit providers that the committee contacted highlighted this as an area for concern particularly as similar advice and debt management solutions were available from organisations like the Citizens Advice Bureau, Credit Counselling Service, Sharp, Pallion Action Group or Libra and most importantly their advice was free. Promotion of Sunderland City Council's Advice and Benefits web page was also identified as important as it provides a wealth of knowledge and information that can guide residents to advice, support and guidance.

7.8.3 The Money Advice Service has recently outlined its objectives for co-ordinating personal debt advice services from 1 April 2012. This follows the Government's request to the Service to initiate a new era of free advice provision. Its focus will be to ensure timely help is provided to customers and that consistently high standards of advice are applied across the country wherever over-indebted customers may turn. The main features of this new approach are to put customers first and main themes include:

(a) a commitment to automatic referral of customers by creditors to an effective advice service so people get the best advice for their needs before a crisis is reached;
(b) improved availability of "triage" services for customers, so those who need it get the right kind of timely advice online, on the phone or face-to-face, with a solution satisfactory to both creditors and debtors;
(c) increased participation of creditors in "fair-share" arrangements; and
(d) more consistent and higher standards of service delivery wherever customers go.

7.8.4 The Money Advice Service will co-ordinate the work of debt advice organisations to help meet the needs of people seeking such support. It will build on the work by partners across the UK and, following a transitional period, new arrangements will be in place from the autumn of 2013. Key to its approach is the recognition that debt advice not only improves the wellbeing of individuals, it can increase collection rates for creditors, reduce court costs and help cut down on repossessions.

7.8.5 An important factor that Members heard time and again during this review, was that there needed to be viable alternatives to the high-cost and illegal credit that those on the lowest incomes and the most financially excluded from society felt was there only source to additional income. Credit unions are one such alternative, a cooperative organisation owned and democratically controlled by its members. The aim of credit unions is to provide loans at fair and reasonable rates, but perhaps more importantly they also aim to get people to save as well as borrow and provide training for their members to make them confident about money.

7.8.6 The credit union in Sunderland (Wearside First) has had issues in the past and has not been as successful as perhaps it should have been. Members met with the Chief Executive of the new Bridges Community Bank and were informed that Wearside First had gained approval from FSA to change into a Community Bank and would be known in future as Bridges Community Bank. To further strengthen the credit unions position it has also joined forces with South Tyneside's Credit Union, enabling them to enjoy savings on economies of scale e.g. a shared IT system. It was further reported that a community bank was a small organisation offering basic lending services, Bridges Community Bank have 10 staff and were also supported by volunteers. There had also been a re-branding exercise and there were now several collection points throughout the city.

7.8.7 The Chief Executive of Bridges Community Bank also explained that the credit union can help the most vulnerable individuals through debt consolidation and enable their clients to reduce their monthly out goings. All clients would be encouraged to open savings accounts, even if they only save £1 a week. Clients were also offered advice and encouraged to borrow less. In looking to encouraging people to save it was noted that there were a number of initiatives including looking to begin financial education in schools by getting young people to save. The organisation has found that there were several generations of families that, for a variety of reasons, had never saved, and this directly impacts on encouraging young people to save. It was noted that approximately 17 schools in South Tyneside participated in the savings programme, plus one of the Academy's and it was hoped this model could be introduced into schools in Sunderland.

7.8.8 Promotion of the new Bridges Community Bank would be important to its success and it was noted that the bank had begun with leaflet drops, although there was on average only about 1% take up on such drops, the majority of business came through word of mouth. It was also noted that the organisation was not allowed to cold call on potential clients. It was also suggested that the Community Bank could attend the area committee meetings and make contact with Voluntary and Community Network in Sunderland to make the organisation known.

7.8.9 Members also met with another organisation who provided help and support to those in financial difficulties, the Christians Against Poverty (CAP) organisation. CAP started 15 years ago and now has 190 centres around the country, with a head office in Bradford. CAP work in partnership with the church offering free debt advice. Initially they make a home visit, set a manageable budget and negotiate with the clients creditors, and can often due to their relationship with creditors reduce or eliminate further interest charges. The applicant has a CAP account, they make one payment into the account then CAP make the payments to their respective creditors on their behalf. They are unable to go overdrawn on their CAP account and all clients are given a caseworker to provide support and advice. Like the credit union CAP also encourages people to save. It was noted that CAP may not be able to provide this support if the client was involved with illegal money lending practices as this would be outside their sphere of operation.

7.8.10 Another free resource available to local people is Libra Sunderland, a direct link to a network of advice organisations across the City of Sunderland. The aim of Libra is to promote local advice services and providers and in so doing increase the access to advice for people in Sunderland. Libra Sunderland provides a resource for signposting to a number of local advice and support groups covering a variety of issues including debt and financial management.

7.8.11 Members also visited SHARP (Shiney Advice and Resource Project) to investigate the work being done by a third sector organisation and to ascertain the financial climate in local communities. Sharp was established in 1981 and is a local advice and support agency that has used welfare rights as a vehicle for community development. It was reported that SHARP was not experiencing any people coming to the organisation with issues relating to illegal money lending. There was an acknowledgement of mounting debt issues within the community mainly due to people's circumstances changing through loss of employment or other changes which have ultimately affected their income.

7.8.12 It was reported that SHARP were dealing with a number of debt issues the majority being either doorstep loans or catalogue debts. Again like CAP and other similar organisations SHARP will make offers to creditors on behalf of clients and these will more often than not be accepted as well as a cessation of any further accruing of interest charges. It was also highlighted that SHARP mostly dealt with people who were unemployed or on benefits they very rarely had contact with people who were in full-time employment.

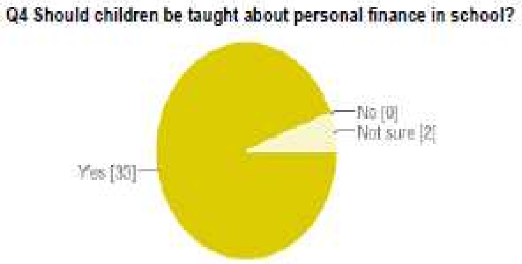
7.8.13 SHARP were also looking to add further services to their support which looked at the underlying issues like unemployment, wellbeing and health. SHARP were looking to work with job linkage and health providers to begin a multi-agency approach which would provide signposting from one organisation to another. SHARP also highlighted the impending welfare reform legislation which would have a huge impact on people's financial stability and the advice centre was beginning to see an increase in people with issues associated to the implications of the Welfare Reform Bill.

7.8.14 In discussing the Welfare Reform Bill it was highlighted by Bridget Phillipson MP that one of the possible changes will be on the Social Fund. The government is to abolish the fund and give this money to local authorities to administer and distribute similarly. The MP for Houghton and Sunderland South expressed concern as to whether this money would be entirely replaced at a local level and if it would continue to fund emergency one-off expenses. Scrutiny Committee members were interested to determine how this fund would be administered locally and the possible implications of such changes would be to the delivery of the fund.

7.8.15 Evidence was also gathered from Pallion Action Group (PAG) which provided support and advice to residents living in the west of Sunderland. The PAG looks to give people advice and guidance to ensure people can make an informed choice and that the illegal money lenders are not even the port of last resort. One of the key issues noted on visiting PAG was the ease with which young people can limit their own credit opportunities through ill informed decisions. It is a very easy cycle to fall into and PAG explained that young people can easily get credit to begin with and it usually begins with a mobile phone contract. Once signed up the young person then does not like the phone or wants a better model so stops paying the contract and moves to another company. This affects their credit rating and reduces their borrowing opportunities in the future, this was noted as a major issue.

7.8.16 PAG also highlighted the importance of work with schools from primary through to secondary to highlight the importance of money management and the benefits of saving. The concern was that schools already have pressures on their curriculum and this may just be a further burden to this, it would be important that anything promoted to schools can be integrated into activities already being delivered. However, there are many young people from poor families are excluded from many of the school activities due to their cost. It could be that schools are encouraged to promote saving within the school for pupils that can then pay for school trips. This can educate pupils about the value of saving, provide an opportunity for those currently excluded to participate and it can be geared to be affordable for parents.

7.8.17 Further to this the MP for Houghton and Sunderland South, in canvassing constituents, found that a majority thought that children should be taught about personal finance in school.



Yes	33	94%
No	0	0%
Not sure	2	6%

Figure 2: Houghton and Sunderland South constituents response to financial education in schools
Source: Member of Parliament for Houghton and Sunderland South

8 Conclusions

The Committee made the following overall conclusions:-

8.1 The current state of the UK economy is one of unemployment, debt and financial insecurity. The North East has suffered higher levels of unemployment than other areas and is an area that is particularly vulnerable to issues surrounding debt. Sunderland is typical of many cities across the North East and many residents struggle to make ends meet having limited avenues available to them for accessing additional credit.

8.2 There is a multitude of ways to borrow money ranging from the traditional routes through banks and building societies through to high-interest credit companies and ending at the illegal money lending trade. It is often those most disadvantaged and vulnerable in society that are the most limited in their choices when it comes to borrowing money. Provident loans, payday lenders and right-to-buy credit are often the key borrowing mediums of many people who struggle to access the more mainstream routes, due to the ease of access and proliferation on the high street. For those who struggle at the very bottom where all avenues of credit have been exhausted there is the loan shark who is often well known in the community and recommended by a friend.

8.3 Barnardo's have highlighted that a key driver for individuals accessing unlicensed credit is through an inability to access licensed credit providers. It is interesting in speaking with credit providers operating in Sunderland to see just how many new applications were rejected. There is a danger that a number of these people may turn to unlicensed credit providers or higher-cost credit operators and it would be beneficial if credit providers could signpost rejected applicants to the local authority who could provide advice and guidance.

8.4 People need to have confidence and awareness around their own financial circumstances to make informed decisions. For many this is not just an individual issues but one that has an impact on the whole family. Working with local support groups there is a potential opportunity to raise financial awareness in local communities and signpost people to support groups and credible sources of credit. Empowering people to make better informed decisions around finances can only help families and communities and hopefully deter many from turning to unlicensed lenders.

8.5 High-cost credit providers are increasing in popularity due to the speed and ease of access to money, they are also creeping into our consciousness through heavy media advertising and an increasing high street presence. For many people these can be an ideal short-term solution to bridge a gap between paydays and unexpected expenses, for others it is a spiral into mounting debts and crippling interest charges. The Office of Fair Trading review into high-cost credit sector did conclude that the markets worked reasonably well. However there is currently a campaign in Parliament for a cap on the cost of credit, and more generally to highlight the practices of high-interest lenders. The campaign has been well reported in the media and hopefully may have raised awareness to the pitfalls of such loans.

8.6 In fact the OFT have recently announced it is to investigate 50 payday loan companies to see whether they are deliberately targeting vulnerable people. The OFT intends to pursue lines of enquiry which look at:

(a) loans being given with adequate checks to ensure that the borrower can afford to repay the loan;
(b) the inappropriate targeting of particular groups of people with unsuitable and unaffordable credit;
(c) rolling over loans which escalate the charges making the loans unaffordable; and
(d) the fair treatment of borrowers who get into financial difficulties.

8.7 It is also worth highlighting that Sunderland City Council has very recently undertaken a study of the effects of high-cost lending on consumers. This report contains a number of case studies relevant to Sunderland and highlights some of the pitfalls of this ever increasing market. It would be useful to submit this research to the OFT to support their review and provide evidence from a Sunderland perspective. The report and its findings would also be welcomed by the Management Scrutiny Committee as a compliment to this review.

8.8 The Illegal Money Lending Team operating in Sunderland is a positive step for removing unlicensed lenders in the area. To promote this in and around Sunderland the local authority has undertaken a month of action which has proved extremely positive. The campaign has had media exposure at Sunderland's Stadium of Light, there has been work undertaken with schools and a performance by a theatre group of a hard hitting play about loan sharks. This work will continue and an action plan is to be developed to continue this work and develop some of the positive outcomes that have followed the month of action.

8.9 Throughout the review there has been the issue of how to break the power that a loan shark can have on a community. There is still a stigma attached to being labelled a 'grass' and there is also the fear of recriminations from the loan shark if found out. In speaking with local community groups it is clear that people are reluctant to come forward and it will be important to promote the positive outcomes of removing a loan shark from an area, and that it can be done. Key frontline workers, from a variety of agencies (e.g. Gentoo Housing), should be trained to look for the signs of loan shark activity within an area, as well as looking to these front line workers within communities to help build trust and promote the key messages around this agenda. It is important that information and intelligence is gathered from as many sources as possible to build a picture to allow the Illegal Money Lending Team to take decisive action.

8.10 Another key issue that has been a common theme throughout the review has been around what would replace high-cost credit and illegal money lending. It must be remembered that frequently the people using these solutions to money problems often have no other option, unlicensed credit is the choice of last resort. Unlicensed credit is an illegal debt and it does not have to be paid back, removing a loan shark can provide that breathing space for those in debt. An individual who all of a sudden is not paying a major part of their limited income to a loan shark may find the additional money can help them to cope and move on.

8.11 The credit union can provide communities with the ability to save and also provide loans and a much more affordable rate. It is true to say the credit union in Sunderland has not flourished as well as others in the area and the country generally, but merging with South Tyneside's Credit Union can provide a much stronger base for it to move forward in the future. It will be important for the new Bridges Community Bank to promote its business and develop a broader client base, there is certainly opportunities to work with community and voluntary groups in and around Sunderland to get those most in need involved with the bank. It would also be advantageous if the local authority could explore ways in which it can positively promote this new venture to help maximise its potential for success.

8.12 The local authority has a wealth of information, knowledge and expertise within its organisation that can help signpost and support people to make informed choices for a long-term solution and future. The benefits and welfare page of the council's website is a key resource for information as well as the customer contact centres which can provide support on a range of debt related issues. It is important that the local authority promotes the help available through its work with a range of partners and in collaborative relationships with key stakeholders. This can ensure that information around advice and guidance is promoted as widely as possible and targeted at those most in need of support.

8.13 The culture of modern society is built on credit and debt, it is a must have now world that worries about the consequences later. Many people do not understand the true value of money and the long term implications of their actions now. Education and an appreciation of money and money management for all ages are important. Schools have a key role to play but it is not feasible to ask schools to add further topics to their curriculums. However, it could be possible to build such issues into school life and there are opportunities to show young people, from an early age, the benefits of saving. Schools could start savings clubs for pupils and get parents to save a nominal amount every week which could contribute to school trips. Parents could also see the benefits by not having to pay out for a trip all in one go or that they cannot afford it and their child is unable to go on the trip.

8.14 These are all small things that can contribute to helping individuals, families and communities to manage their debts, look to alternative solutions and make better informed choices. This issue of debt, poverty and those that exploit this situation is deep rooted in our society, but through the work of the Illegal Money Lending Team, Local Authorities and community and voluntary groups there are the beginnings of a greater awareness of just how people are being exploited throughout England. In times of recession and economic downturns it is often those that are least able to cope that suffer the most, the local authority and its partners continue to tackle these issues to support communities and local people.

9 Draft Recommendations

9.1 Management Scrutiny Committee has taken evidence from a variety of sources to assist in the formulation of a balanced range of recommendations. The Committee's key recommendations to the Cabinet are as outlined below:-

(a) That Trading Standards explore the potential for developing a relationship or agreement with local credit providers to signpost rejected credit applicants to appropriate sources of guidance or support either in the Council or local community;

(b) That the local report being undertaken, by Trading Standards, into high cost lending in Sunderland is submitted to the Office of Fair Trading review into payday loans as evidence, as well as presenting the findings to the Management Scrutiny Committee;

(c) That the Management Scrutiny Committee receives updated reports on the progress and achievements in relation to the action plan that is to be developed following on from the initial month of action around illegal money lending;

(d) That the Illegal Money Lending Team in partnership with Trading Standards, Welfare Rights and key partner organisations look to promote the benefits and build trust relating to their work around loan sharks through a variety of media including area committees and LMAPS;

(e) That Trading Standards and Welfare Rights look to explore possibilities with community and voluntary sector organisations in providing training sessions on financial management and debt related issues in local community settings;

(f) That an initial publicity strategy is developed to ensure that the first conviction/arrest in Sunderland of a loan shark has positive media coverage with an aim to enhance confidence and assurance in communities and individuals who are in similar situations;

(g) That work is undertaken to promote the local authority website as an important resource for information around debt management, financial information and local advice services;

(h) That the council looks at how it can encourage schools to explore the potential for school savings clubs that can help young people and families in promoting the value of saving;

(i) That new media outlets including the app and android market, twitter, other social media and text messaging be explored and evaluated for promoting and targeting messages about high-cost credit and illegal money lending to young people who are potentially most at risk;

(j) That the Council looks at ways to promote and support the newly re-launched credit union, Bridges Community Bank, as a viable alternative to high-cost credit and illegal money lending.

10. Acknowledgements

10.1 The Committee is grateful to all those who have presented evidence during the course of our review. We would like to place on record our appreciation, in particular of the willingness and co-operation we have received from the below named:-

(a) Tony Quigley – Head of the Illegal Money Lending Team (England)
(b) Denise Meek – Illegal Money Lending Team
(c) Richard Reading – Principal Trading Standards Officer
(d) Joan Reed – Strategic Change Manager
(e) Alan Caddick – Head of Housing
(f) Liz St Louis – Head of Customer Service and Development
(g) Justin Collins – Mortgage Rescue Officer
(h) Theresa Finch – Christians Against Poverty UK
(i) Gavin Hennessey – Bridges Community Bank
(j) Dorothy Gardner – Sunderland MIND
(k) Malcolm Hays – Hays Credit
(l) Neil Gillespie – Hays Credit
(m) Peter Kenyon – Ramsdens Financial Ltd
(n) Pallion Action Group
(o) Shiney Advice and Resource Project
(p) Bridget Phillipson MP Houghton and Sunderland South
(q) Sharon Hodgson MP Washington and Sunderland West

11. Background Papers

11.1 The following background papers were consulted or referred to in the preparation of this report:

(a) Bank of England 2011 Credit Conditions Survey: Survey Results Quarter 3
(b) Citizen Advice Bureau Constituency Report: Houghton and Sunderland South 2010/2011
(c) MP Accountability Network January 2011 Briefing 2: High-Cost Credit
(d) Keeping the plates spinning: Perceptions of payday loans in Great Britian. Consumer Focus. 2010
(e) A Vicious Cycle: The Heavy Burden of Credit on Low Income Families. Barnardo’s. 2011

APPENDIX 1

Sunderland City Council Month of Action on Illegal Money Lending

There were **four themes** for the activities held during the month of action:

Awareness raising

It was considered important to raise awareness of illegal lending in the city, therefore a stall was hosted in the Bridges Shopping Centre over two days during which time the centre had a footfall of 119,000 people. Promotional material was distributed to GP's surgeries, Taxi drivers and community centres. In addition promotional messages were displayed in Gentoo offices and CSC where members of the public go. Furthermore 9000 beer mats were distributed to the pubs and clubs of Sunderland.

Training of key staff

Over 60 front line staff from Sunderland city council and the voluntary and community sector received training on how to spot and tackle illegal lending. One person who had attended the training clearly put this to use and shared information with the IMLT about a potential loan shark within hours of attending the training.

Media coverage

The month of action received good media coverage through a variety of media platforms. This included three newspaper articles in the local press, a radio interview with the Head of IMLT, and a radio discussion with the Principal Trading Standards Officer and IMLT staff.

Councillor Kelly was also interviewed by Sky Tyne and Wear about the issue.

Community involvement

Community involvement was a key part of the month. Gentoo hosted two family fun days on their estates, children got the opportunity to meet IMLT mascot Sharky and their parents were given information about illegal lending.

Southwick Primary School hosted a special assembly to their pupils and held a competition to design a banner warning against the perils of illegal money lending.

SAFC have been very involved with the month of action and they donated tickets to the banner winners and runners up to attend the big match between Sunderland and Arsenal. At half time the children went on the pitch and displayed the banner. The link with SAFC has been heralded as good practice by the national IMLT. The banner has also been on display at other places in eth city across the month, including the Fawcett Street Customer Service Centre.

The month of action was rounded off by the premier of 'It's only a few quid' by community theatre company Shontal being played to a packed house at The Sunderland Royalty Theatre.