

## **Pay-Day for Loan Sharks**

How the poorest in society are paying up to 10,000% APR as the Bank of England slashes its lending rate towards zero.

## **Key Findings:**

- The Bank of England has reduced interest rates to 1.5% - their lowest levels since its establishment in 1694.
- Meanwhile, loans within the Home Credit Market have APRs ranging from 100% to a staggering 10,000%.
- A typical loan in the Home Credit Market might see someone borrowing £200, but paying back £300 just a couple of months later – at a whopping 1576.6% APR.
- Almost 90% of the Home Credit Market is dominated by just six companies.
- The lack of competition within the Home Credit Market has created the right environment for extortionate APRs.

## **Introduction**

The current economic climate has brought a financial chill to millions of Britain's hard-working families. Despite the recent reduction in interest rates, the effects of the 'credit crunch' have hit the average person hard, with thousands being made redundant and thousands more accumulating mountains of personal debt.

In recent years, the Labour Government has overseen a worrying increase in over-indebtedness throughout the country. The level of personal debt in the UK has recently risen to over £1.9 trillion<sup>1</sup> - of which £1.4 trillion is secured against property - and today the average household is struggling to pay back loans of almost £60,000<sup>2</sup>; a situation leaving thousands facing the real prospect of being evicted from their homes.

Within this context the so called Home Credit Market has expanded rapidly and is now deemed to be worth £3bn per annum. Interest rates are typically much higher than with traditional lenders with rates reaching a staggering 10,000% APR at the extreme.

This issue came to Grant Shapps' attention after several constituents complained having received direct mail advertising for loans at very high interest rates. This report is a result of his investigation.

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<sup>1</sup> Bank of England

<sup>2</sup> Credit Action – [www.creditaction.org.uk/debt-statistics.html](http://www.creditaction.org.uk/debt-statistics.html)

## Home Credit Market

The Home Credit Market, which constitutes small door-to-door and internet-based loans, is an industry estimated to be worth over £3 billion per year.

Its loans are typically small – rarely exceeding £1000 – and are usually paid back in instalments (often weekly or fortnightly) from the customer’s home within 3 months of issuing.

However, due to lack of competitive pressure on the setting of annual percentage rates, companies are able to charge extortionate APRs of between 100% and a staggering 10,000%, leaving customers struggling to pay back vastly inflated sums of money.

This sub-personal lending market is operating at a time when the Bank of England has reduced interest rates to their lowest levels since its establishment in 1694.

To put this in perspective, a loan of £200 from one such company, QuickQuid<sup>3</sup> – where “depending on the loan term, typical APRs will range from 1351.7% to 9889.3%” – could cost over £300 if paid back over just one month.

Almost 90% of the Home Credit Market is dominated by just six companies, and a recent Competition Commission found that a lack of competition in the market means that home credit customers are being overcharged by up to £100 million a year.

These disturbing statistics highlight the degree to which the Home Credit Market has been allowed to prey on those saddled with debt and struggling with poor credit ratings. The most vulnerable in society typically pay the highest price for their credit as a result of this system.

Here’s a typical example of the APRs available through some of the leading organisations offering Payday style loans.

### Snapshot of typical repayment schemes on a loan of £200

Lender	Loan Amount	Total Repayable	Term	%APR
Uncle Buck Payday Loans	200	250	31 Days	1286.10%
Same Day Money	200	250	31 Days	1286.10%
Cash Rush Online	200	250	31 Days	1286.10%
Payday Financial	200	250	31 Days	1286.10%
Payday UK	200	260	31 Days	2100.40%

<sup>3</sup> [www.quickquid.co.uk](http://www.quickquid.co.uk)

## Solutions

The government has dithered and delayed in dealing with the important factors at the heart of this issue and the worrying trends of increasing over-indebtedness and financial illiteracy have been continually ignored. An Institute of Financial Services study found that 79% of the population did not understand the term ‘APR’, leaving them open to exploitation by loan sharks, but there continues to be a considerable ‘advice gap’ for those in most financial need

Recently David Cameron called for the creation of a free National Finance Advice Service that would provide people with impartial and independent guidance on financial issues via face-to-face sessions, telephone advisers and online information. This has been supported by many of the leading debt advice charities, with the Chairman of the Consumer Credit Counselling Service welcoming “the Conservative commitment to funding and developing free money guidance. The need is there among the whole community.”<sup>4</sup>

According to a recent Treasury report, 75% of people<sup>5</sup> would be likely to use such a service and according to a poll 40% would use it at least once a year<sup>6</sup>. It can be therefore seen as a matter of urgency that such an advice service is rolled out to the public, in order to bring responsibility back to the Country’s economy from the bottom up.

Conservatives want to create more competition in the Home Credit Market in order to ensure wider access to affordable loans for those in need. In order to do this, we have called for home credit companies to conform to the same data sharing standards as apply in the mainstream banking sector. The Conservative Party will consult over proposals to force these companies to share data about individuals’ credit performance, so that consumers are able to switch between companies without losing their credit history.

Conservatives also believe that community based Credit Unions should be expanded as they encourage saving and lend at responsible rates.

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<sup>4</sup> Malcolm Hurlston, Chairman and Founder of CCCS

<sup>5</sup> Thoresen Review for the Treasury

<sup>6</sup> YouGov Poll for Resolution Foundation

## **Key Recommendations**

- **Create more competition in the Home Credit Market in order to bring down APR rates.** Almost 90% of the home credit market is dominated by just six companies. A recent Competition Commission found that a lack of competition in the market means that home credit customers are being overcharged by up to £100 million a year. We want to increase competition in the home credit market by forcing home credit companies to conform to the same data sharing standards as apply in the mainstream banking sector. The Conservative Party will force these companies share data about individuals' credit performance, so that consumers are able to switch between companies without losing their credit history.
- **Encourage the greater use of Credit Unions.** Credit Unions are local community based non-governmental enterprises which are run to help encourage saving and lend at responsible rates.
- **Create a free National Finance Advice Service.** This national financial advice service will be rolled out across Britain within 12 months of a Conservative government coming to office. It will cost £50 million per year to set up and operate, and will be funded in full through a new social responsibility levy on the financial services sector.

## **Quotes**

“When a constituent showed me a leaflet offering doorstep loans at 184% APR and decided to investigate how the Home Credit Market operates. It wasn't long before I had uncovered PayDay loans of up to a staggering 10,000% APR.

“As the Bank of England slashes interest rates close to zero, we think it is obscene that anyone should end up paying 10,000% APR, particularly when the evidence suggests that these loans are targeted at some of the most vulnerable members of our society.

“This report proposes practical measures to combat the growing problem of exploding personal debt.”

Grant Shapps MP  
Shadow Housing Minister