NOVEMBER 2012

Personal Debt Snapshot:

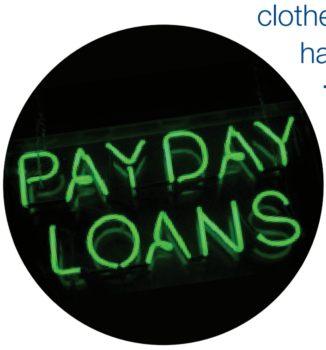
Payday loans lead to prioritising debt above food

R3's ninth Personal Debt Snapshot reveals that more than **5 million (5,205,237) GB adults say they are considering** taking a payday loan in the next six months. This equates to approximately a **50% increase** to this time last year, when it was around 3.5 million individuals.

These loans are most likely to appeal to the younger demographic, with more than **one in four (26%) of 18-24** year olds likely to seek a payday loan in the next six months. This is well above the national average across all ages of 11%, and 4% of those aged 45 and over.

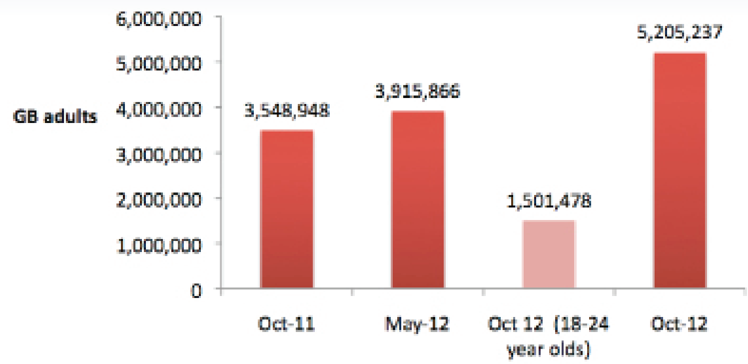
London is the UK region most likely to seek a payday loan in the next months, with 23% of Londoners saying they are likely to take one.

In the past six months, 13% of the GB population have prioritised paying back these loans over traditional 'essentials', such as buying food, clothes or paying for gas and electricity. Specifically **7%** have prioritised paying back these loans over buying **food** in the past six months.



This figure is higher amongst younger ages groups, **12% of 18-24 year olds or 15% of 25-34 year olds** have prioritised **paying back a payday loan over buying food** in the past six months.

GB adults likely to seek a payday loan in next six months:



Other parts of the Personal Debt Snapshot reveal:

Debt concern

- Three in five **(59%) are worried about their current levels of debt**, up from 54% in April this year and the second highest figure since the tracker started over two years ago. This is true for three quarters (77%) of 25-44 year olds compared to only 33% of those aged 65 and above.
- **Women (63%)** are more likely to be worried than men (55%) about their debt.
- The overall outlook is still **negative** – 27% think their personal financial situation will worsen over the next six months compared to 19% who think it will improve.

Saving

- **78% of the GB population** wish they were saving more than they currently are, while around half (48%) of the population would save more if they did not have debt to pay off.
- **More than a quarter (29%)** do not have any savings at the moment – an increase on the 20% it was in January.

Bank accounts for bankrupts

- **79% of the GB population believe those declared bankrupt should** still have access to basic bank accounts i.e. accounts with no credit facility.

The report in summary:

▼ 1. Increased likelihood of seeking a payday loan in the next six months, especially for 18-24 year olds

R3 has been tracking the number of individuals who say they are likely to take a payday or other short term, high interest loan in the coming six months, which has increased from 7% of the GB population in October 2011 to 11% a year later. This equates to a jump from around 3.5 million in October 2011 to **approximately 5.2 million today**, almost a 50% increase.

- Of particular concern is the typically young demographic of those who are likely to take out a payday loan in the next six months; which is over one in four (26%) of 18-24 year olds, compared to only 4% of anyone aged 45 and over.
- By region, individuals from London (23%) are more than twice as likely as the national average (11%) to take out a payday loan.

▼ 2. Prioritising payday loans over food

There is some evidence of knock-on effects of these loans, as repayment takes priority over essential needs.

- Over the past six months, more than one in ten (13%) of GB adults have prioritised paying back these loans over other 'essentials' such as buying food, clothes, or paying a gas bill.
- This group breaks down as paying back these loans over: buying food (7%); buying clothes for oneself or family (6%); paying a gas or electricity bill (5%); buying petrol or transport costs (4%) or paying a bank loan or credit card bill (4%).

▼ 3. Increases in debt worry – second highest figure since tracker began. Women more concerned about debt than men

- Perhaps it is no coincidence that concern about debt levels has increased once more, affecting 59% of the population, up from 54% in April this year and the second highest reading ever.
- Levels of debt concern are especially high for 35-44 year old group, affecting three in four (77%). Once more London has the highest levels of debt concern by region, at 71% of Londoners.
- Women (63%) are more likely to be worried about current debt levels than men (55%).

▼ 4. Nearly 1 in 3 have no savings

- More than a quarter (29%) do not have any savings at the moment – an increase on the 20% it was at the start of the year.
- This contrasts to the fact that the vast majority of the British public (78%) wish they were saving more than they currently are; and nearly half of respondents (48%) would save more money if they didn't have debt to pay off.
- Two thirds of GB adults (66%) simply do not have enough money to save regularly.

▼ 5. Vast majority think basic bank accounts should still be available for bankrupts

- Following the announcement in September that the Co-Operative Bank were no longer offering new bank accounts for bankrupts, 79% think that those declared bankrupt should still be able to access a basic bank account (i.e. with no credit facility).

R3 President Lee Manning comments:

"Since this time last year, there has been a 50% increase in those who say they are likely to take a short term high interest loan in the next six months – now a staggering 5.2 million GB adults. We can no longer ignore the payday phenomenon, especially as one in four 18-24 year olds say they are likely to take such a loan.

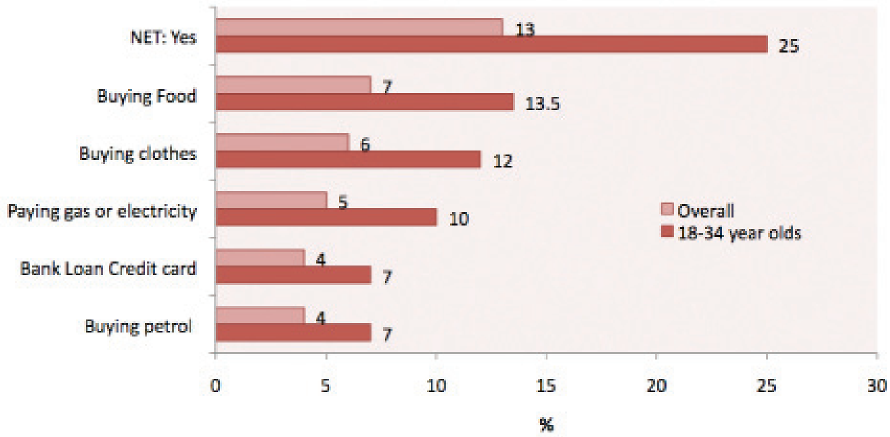
"Paying back debt ahead of food is a million miles away from the supposed purpose of these payday loans, which providers claim 'smooth over financial peaks and troughs'. Instead, expensive loans taken with easy internet or smart phone access are forcing some debtors into making difficult choices. If money has to be spent paying back these debts ahead of food, clothing, gas or electricity then these loans aren't doing their job, and are in fact only exacerbating a difficult situation."

Prioritising debt over food

An age old issue of how to spend limited funds has been given a modern twist with the arrival of payday and other loans online. Their evident popularity has now forced more than one in ten (13%) to prioritise these loans over essentials such as buying food, clothes or paying a gas bill in the past six months.

Of greater concern is the prevalence of this behaviour pattern amongst those under 34, for whom these loans have proven especially attractive.

- 27% of 25-34 year olds have prioritised paying back payday or other short term loans in the past six months, as have 23% of 18-24 year olds.
- 15% of 25-34 year olds have prioritised paying back payday or other short term loans specifically over buying food in the past six months.



Likelihood of seeking a payday loan in the future

As mentioned, the potential demand for payday loans is increasing overall from 7% in October 2011 to 11% a year later. This represents a jump from 3.5 million in October 2011 to 5.2 million today.

Looking ahead, the situation looks unlikely to improve for younger people, as over one in four (26%) of 18-24 year olds, compared to only 14% of anyone above 45, say they are likely to seek a payday loan.

Increases in debt worry – second highest figure since tracker began. Women are more concerned about debt than men

The Personal Debt Snapshot also records increasing levels of debt concern, affecting 59% of the population today, up from 54% in May this year and the second highest reading ever.

- As mirrored by the popularity of payday loans, levels of debt concern are especially high for 25-44 year olds, affecting over two in three of them (77%). Once more London has the highest levels of debt concern by region for 71% of Londoners.
- Women (63%) are more likely to be worried about current debt levels than men (55%).

R3 President Lee Manning adds:

"The times we live in burden the young with debt, but even I am amazed that nearly eight out of ten people aged between 25-44 consider their current level of debt to be a worry.

"Debt concern is so prevalent as to become an accepted 'norm'. This could lead to indifference, and the feeling that taking on extra debt 'won't make things any worse'. Concern is one thing but it must be coupled with action to try and resolve it.

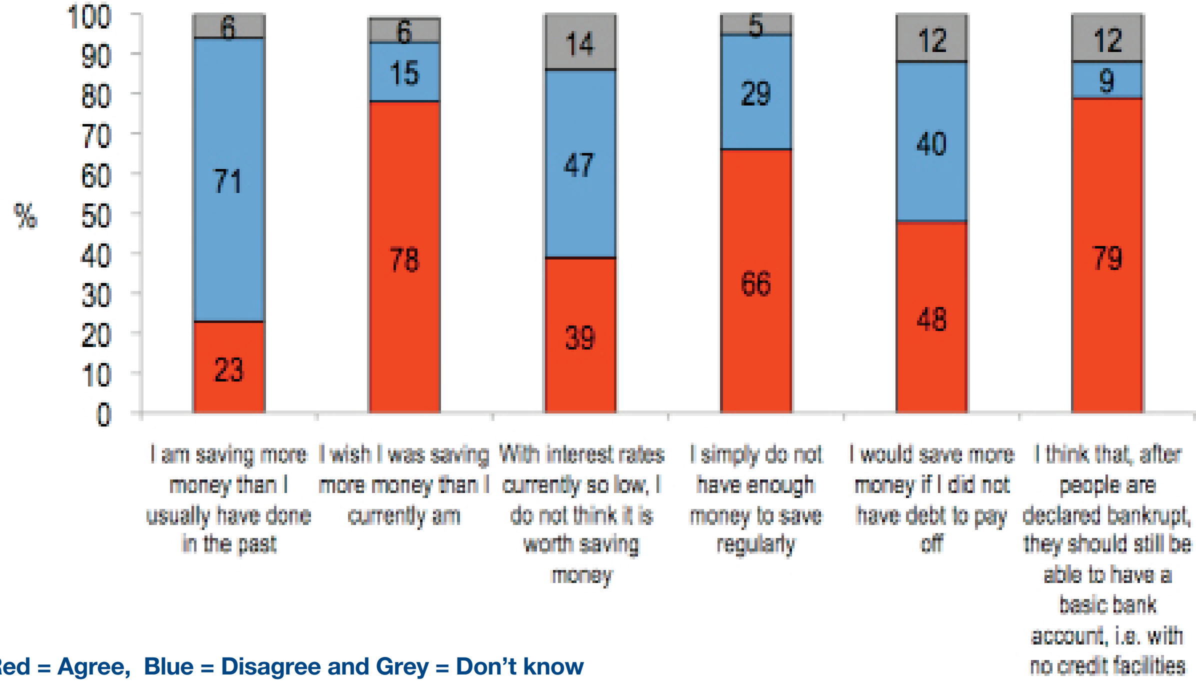
"I would urge those who are stuck in the treadmill of debt to take professional advice, in order to achieve long term peace of mind. In some, but clearly not all, cases a formal debt solution such as bankruptcy, an IVA or DRO might be a better course of action than piling up short term, expensive loans with no hope of paying them back in full and on time."

More than one in four have no savings

Further pressures are evident when polling individuals on their saving habits. More than a quarter (29%) do not have any savings at the moment – an increase on the 20% it was in January.

This contrasts to the fact that the vast majority of 78% wish they were saving more than they currently are; and nearly half of us (48%) would save more money if they didn't have debt to pay off. 66% of GB adults simply do not have enough money to save regularly.

- Following the announcement in September that the Co-Operative Bank was no longer offering new basic (no credit facility) bank accounts, 79% think that those declared bankrupt should still be able to access a basic bank account.



KEY: Red = Agree, Blue = Disagree and Grey = Don't know

R3 President Lee Manning concludes:

"I worry where this reliance on payday loans will leave the young generation. The demand for these loans shows a lack of understanding about how credit works, and I worry younger generations are not educated to make sensible judgements about taking on credit.

"We have nothing against the payday loan industry, provided these loans are being used as intended as a one-off and paid back in full. Unfortunately, we know that one in three took out a another payday loan as they couldn't pay the first one off, and now we see individuals prioritising payday loan payments over food - surely not what providers intended.

"Payday loans are here to stay, but little thought is being given to the long term and damaging consequences of this expensive credit in cases where it is cannot paid back on time."

R3 is calling for:

R3 believes that there is a place for short-term 'payday' loans, but there is evidence to suggest that loans can become unmanageable for the unsophisticated borrower. Whilst the trade associations representing payday lenders issued revised codes of practice for their members in May this year, offering more transparency on the cost of loans and assistance for indebted customers, these codes should not be the end of the story and efforts still need to be made within the industry to root out bad practice. R3 calls for tighter regulation and education to prevent individuals adding to their financial problems, and awaits the conclusions of the OFT's review into the payday lending.

Regulation

- There should be greater regulation of the payday loan industry – with regulation to the same standard as other lending.
- There should be greater information and clarity in terms of the size of the payday loan market which could be achieved in part by a 'real time' central register.
- As with IVA and DMP companies, advertising should be strictly regulated and standards enforced, with prominent 'health warnings' and breakdowns included about the true/actual cost as well as the APR.
- There may be merit in exploring a cap on the total cost of credit after research.

Roll-overs

- Consideration should be given to a cap on 'roll-overs'. There is evidence that individuals take out consecutive loans, suggesting that the loan is being used as an on-going credit facility as opposed to a short-term solution, which can become very expensive for the unsophisticated borrower. R3 appreciates the fear that a cap on the number of payday loans may drive borrowers to loan sharks, but there has to be a point at which roll-overs are simply not in the interests of the borrower.
- An individual experiencing problems or seeking roll-over loans should be advised to contact the Money Advice Service or professionals such an insolvency practitioner for debt advice and alternative sources of finance.

Methodology note:
ComRes interviewed 2051 British adults online between 28th and 30th September 2012. Data were weighted to be demographically representative of all British adults aged 18+.

ComRes is a member of the British Polling Council and abides by its rules.

About R3

**R3, the trade body for insolvency professionals, represents over 97% of Insolvency Practitioners.
Members are trained and regulated accountants and lawyers who have extensive experience of helping businesses and individuals in financial distress.**