

## Briefing Paper

### Lending to people on low incomes: an overview

For many people access to consumer credit is now an essential part of everyday life. It is often used for a number of purposes, for example, to buy essential goods or to meet shortfalls in income. Those on high incomes are more likely to use credit than those on low incomes but there are now over 10 million individuals on a low income<sup>1</sup> that use credit (69 per cent of those on a low income). For all those with access to 'mainstream' credit, overdrafts and credit cards are the most commonly used form of credit<sup>2</sup>. Some people, particularly those on low incomes, can find access to 'mainstream' credit problematic and if they are able to access finance, they may find it expensive as they may have to use sources such as payday lending or home collected credit.

Those most at risk of experiencing difficulty accessing mainstream credit tend to be women, those aged between 18 and 25, or over 65, on a low income, often with low levels of education<sup>3</sup>. There is a need therefore for access to affordable credit that is responsibly lent to alleviate households from becoming over-indebted and support those that are over-indebted.

Some people may not experience difficulties in repaying their credit commitments each month. Others may experience 'problem debt' or 'over-indebtedness' when they struggle

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<sup>1</sup> Low income is defined as 'households in the lowest 50 per cent of household incomes' (Ellison, et al., 2011:103). Ellison, A. Whyley, C. Forster, R. and Jones, P. A. (2011) *Credit and low-income Consumers: A demand-side perspective on the issues for consumer protection*. Friends Provident Foundation, Policis, John Moores University. <http://www.friendsprovidentfoundation.org/reports.asp?itemid=312&itemTitle=Credit+and+low%2Dincome+consumers%3A+a+demand%2Dside+perspective+on+the+issues+for+consumer+protection&section=24&sectionTitle=Reports>

<sup>2</sup> Ibid.

<sup>3</sup> OFT (2010) Review of high cost credit. Office of Fair Trading. [http://www.of.gov.uk/shared\\_of/reports/consumer\\_credit/High-cost-credit-review/OFT1232.pdf](http://www.of.gov.uk/shared_of/reports/consumer_credit/High-cost-credit-review/OFT1232.pdf)

or fall behind with credit repayments. Changes in income and circumstances are key to understanding financial difficulties, such as when people: have multiple credit commitments; experience an unexpected fall in income; move home; have a baby; experience relationship breakdown; lose their job; or become ill<sup>4</sup>.

However, some people associate over-indebtedness with irresponsible borrowing and lending. For example, lenders may encourage people to borrow more than they need or can afford. There is also concern about individuals over-extending themselves due to rising expectations blurring the division between needs and wants. Nevertheless, some households are dependent on borrowing to smooth fluctuations in income, so credit may be a mechanism for financial survival<sup>5</sup>.

In the UK, debates around responsible lending and borrowing have (re)surfaced in light of the financial crisis with for example, the OFT<sup>6</sup> report on payday lending compliance and the Independent Commission on Banking<sup>7</sup>. CHASM is undertaking research on responsible lending and borrowing as part of the FinCris project<sup>8</sup> sponsored by the Arts and Humanities Research Council which will contribute to these debates.

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<sup>4</sup> PFR (2007) *Easy come, easy go: borrowing over the lifecycle*. Standard Life.  
<http://www.bristol.ac.uk/geography/research/pfrc/themes/credit-debt/pfrc0710.pdf>

<sup>5</sup> Ibid.

<sup>6</sup> OFT (2013) *Payday Lending Compliance Review: Final Report*. Office of Fair Trading.  
[http://www.offt.gov.uk/shared\\_offt/Credit/oft1481.pdf](http://www.offt.gov.uk/shared_offt/Credit/oft1481.pdf)

<sup>7</sup> Independent Commission on Banking (2011) *Final Report: recommendations*.  
<http://bankingcommission.independent.gov.uk/>

<sup>8</sup> For more information about the project please visit: <http://www.fincris.net>