Glasgow Centre for Population Health

PUBLIC HEALTH IMPLICATIONS OF PAYDAY LENDING

BRIEFING PAPER 48
September 2016

www.gcph.co.uk

KEY POINTS

- The 2008 economic recession triggered a demand for a greater understanding of the relationship between socioeconomic factors and health. The last decade has seen significant changes within the financial sector including the increasing market share of ‘fringe banking’, including ‘payday lending’ products.

- Payday lending refers to short-term loans for small amounts of money with high interest rates and fees. Payday lending is targeted toward lower income, high-risk borrowers.

- Payday lending should be considered a contemporary public health concern. Key factors include the vulnerability of the populations involved and the urgency, scale and growth of the issue, coupled with the corrosive effect that personal debt and financial vulnerability can have on mental and physical health.

- The Financial Conduct Authority introduced appropriate regulatory reforms within the payday market in 2015. The reforms do not however address the demand for rapid, easy access and short-term credit among low income households. Nor is the demand currently met by mainstream banking, credit unions, microcredit or employer lending.

- Identifying viable alternatives to payday lending is a societal policy priority requiring immediate attention.

- Chronic debt is likely to be symptomatic of more complex borrower vulnerability and emergent forms of disadvantage within working populations.

INTRODUCTION

The 2008 financial crisis and subsequent economic recession triggered a renewed focus on the relationship between socioeconomic factors and health. At the outset of the crisis, several well-evidenced associations were revisited, such as the detrimental impacts of unemployment on mental health, morbidity and mortality[1]. Also at this time, greater attention was being paid to contemporary employment and socioeconomic conditions which have implications for population health; including precarious employment[2], working poverty[3], underemployment and low pay churning[4]. The economic downturn also raised concerns around the mental health of individuals accruing or experiencing personal debt.

Personal debt and financial difficulties independently predict an increased likelihood of depressive symptoms[5] and suicidal thoughts[6]. Of all debt types, problems with housing payment are most strongly associated with the onset of mental health problems[7]. Lone parents are especially susceptible to debt and its detrimental effects; borrowing money and unmanageable debt are additional drivers of mental health disorders among this section of the population[8].

The UK financial sector has gone through a period of unprecedented change since the 2008 crisis, including the public takeover of several banking institutions[9] and the increasing market share of fringe banking, incorporating products such as rent-to-own leases, pawn loans[10] and ‘payday lending’[11]. This paper focuses exclusively on payday lending; a controversial practice which refers to short-term loans for small amounts of money with high interest rates and fees. Payday lending is targeted toward lower income, high-risk borrowers.

Prevailing criticisms of payday lending concern the high interest rates and fees charged, and suggest that the business model is predicated on trapping vulnerable borrowers in a cycle of debt[12]. However, payday lending is a more nuanced issue than first impressions might suggest, for some borrowers payday lending represents perhaps the only means of overcoming financial exclusion[13]. Other sources suggest many payday borrowers value the lending model as the borrowing costs are generally lower than those of unplanned bank overdraft charges[14,15].

The Office of Fair Trading (OFT) estimated the UK payday lending market to be worth £2.2 billion in 2013 (rising from £900 million in 2008); this equates to approximately 1.7 million borrowers and 8.2 million new loans over the course of 2013[16]. The vulnerability of the populations involved, the timeliness, scale and growth of the issue, make payday lending worthy of investigation as a public health concern.

PURPOSE AND AIMS

The purpose of this briefing paper is to further the understanding of the potential population health impacts of payday lending. In doing so, key features of the current payday lending model are described and discussed, with a summary of evidence relating to health and wellbeing impacts. First, evidence concerning the influence of debt on mental and physical health is summarised. Next, the briefing paper is structured as a series of ten questions and answers which seek to illuminate the current UK payday lending market, including the profile of payday borrowers, uses of payday loans and the factors driving the demand for payday lending. Then, the current operation of payday lenders is examined including the conduct of lenders and whether disadvantaged communities are targeted and chronic borrowing encouraged. The implications of the 2014 Financial Conduct Authority (FCA) regulatory reform and imposed caps on payday lending interest rates and fees are also outlined, as are some potential unintended consequences of the caps. The viability of alternative short-term loans and models of credit for high-risk borrowers are also explored. Finally, the public health implications of payday lending are summarised. The discussion and conclusion sections synthesise the key points made and outline important implications and recommendations stemming from the evidence reviewed.

This paper aims to assist strategic awareness and discussion concerning payday lending and its impacts on the health and wellbeing of borrowers. The paper also aims to support the development of credible policy responses which mitigate potential detrimental impacts of payday lending on population health and wellbeing, in Scotland and beyond.

APPROACH AND METHODS

This paper summarises a literature review. The paper is focused on UK-based research and evidence; however, international studies have been used where no UK-focused alternatives can be found and this is made clear in the text. Research papers reviewed include both quantitative and qualitative designs, evaluations, grey literature, regulatory reforms, market statistics and published expert commentary concerning payday lending. The literature reviewed was assessed in terms of methodological quality, credibility of source, currency and relevance to UK perspectives on payday lending. In total, approximately 220 sources were reviewed in detail with 71 sources being directly used and cited in this paper.

THE INFLUENCE OF DEBT ON MENTAL AND PHYSICAL HEALTH

This section provides an overview of evidence concerning the effects of debt on mental and physical health. These effects and associations are central to the public health implications of payday lending. The relationship between debt, mental health and physical health is complex; there are important age, gender, income, family structure, type and size of debt variances, as well as individual perceptions of debt and consumption patterns which influence the degree of harm that being in debt has on mental and physical health[17,18].

Debt and mental disorders

Personal debt is associated with higher rates of common mental disorders (CMD); a 2012 English study describes how debt is most prevalent among 16-34 year olds, non-married adults, low income and unemployed people, and those in rented accommodation[19]. The study concluded that individuals (among a random probability sample) with debt were over three times more likely to have CMD compared with those with no debt, and were four times more likely to have depressive episodes, panic disorders or anxiety disorders. Individuals with multiple sources of debt, specifically including payday lending and pawnbroker debt, had the highest rate of CMD among the study population, at 50%. The demographic profile of those experiencing debt in this study is consistent with other studies; emphasising the particular susceptibility of low income, single, young people to debt and mental disorders[20].

A 2008 cross-sectional study concludes that debt significantly and independently predicts an additional burden to mental disorders beyond that of adverse socioeconomic circumstances. The study also highlights that the number of debts is important; participants with six or more separate debts had a sixfold increase in mental disorders after adjustment for income and other socioeconomic markers (odds ratio: 6.0, 95% confidence interval: 3.5-10.3)[21]. Personal debt has been shown to be a more accurate predictor of the onset of mental health issues and disorders than other measures of socioeconomic status, the association being so strong that some epidemiologists have concluded that debt should be considered as an independent marker of socioeconomic status[22].

Debt and physical health

Financial vulnerability and mental health disorders in turn are associated with worsened physical health; the evidenced pathways are complex but can broadly be categorised as *psychobiological* and *behavioural*. Psychobiological pathways refer to a body of evidence exploring the ways in which adverse socioeconomic factors ‘get under the skin’ of the populations concerned, negatively affecting mental health (particularly through prolonged stress) and contributing to poor physical health outcomes including cardiovascular diseases and all-cause mortality[23]. A 2011 study investigated an emerging psychobiological pathway, finding that individuals of lower socioeconomic position exhibit accelerated biological ageing leading to a range of biological risk markers compared with people in the least deprived circumstances[24].

Behavioural pathways through which disadvantaged socioeconomic circumstances impact on mental and physical health include diminished access to health and other services, reduced health-seeking behaviour and adoption of damaging coping mechanisms[25,26]. Issues of addiction and social isolation are higher among populations experiencing adverse socioeconomic conditions, adding further burden to mental and physical health[27,28].

It is likely that debt plays a linking role in these psychobiological and behavioural pathways between difficult socioeconomic circumstances, mental health and in turn physical health. However, the exact nature of the pathways linking debt to physical health requires further investigation, particularly for vulnerable subsets of the general population. Without illuminating the pathways to any degree, a number of studies do however report that personal debt is significantly associated with poor physical health and self-reported health, and that the stress associated with debt is central to the association with worsened health[29-31].

Lenton and Mosley’s comprehensive 2008 synthesis of evidence proposes theoretical pathways in relation to debt, stress, mental and physical health. Some of the linkages between evidence, particularly in relation to fringe banking practice, however, are theoretical and remain to be substantiated by empirical findings[32]. The synthesis begins to unpick a complex interaction: that debt serves as both a cause and a consequence of worsened mental and physical health. The synthesis describes how debt causes stress, which impinges on physical health both through psychobiological and behavioural mechanisms; the resultant poor mental and physical health (particularly including depression) in turn inhibits the potential for employment and maintaining employment, and thus impedes the ability to escape from debt, especially for low-income households.

In the context of payday lending, the authors emphasise the importance of ‘debt structure’ as well as the level of debt as having a significant bearing on subsequent impacts. Debt structure refers to the type and nature of debt and the process of accessing and repaying debt. Individuals with few assets and precarious income will typically be unable to borrow within mainstream banking at low interest, and may resort to fringe banking products such as payday lending. The unfavourable terms of payday loans directly compromise effective debt management: not only can the credit and administrative charges be so high as to remove the borrower’s room for financial manoeuvre (including the purchase of household essentials), but the aggressive methods used to compel payment add to the anxiety suffered by the borrower, thereby further depleting their resilience and ability to cope rationally with their debt burden[32].

TEN KEY QUESTIONS FACING PAYDAY LENDING

This section is structured as questions and answers. From the literature reviewed, ten key questions facing the current payday lending market were identified; the answers are based on published evidence, regulatory reform reports and financial market information and statistics.

1. Who uses payday lending?

Payday loan customers must be in employment to be eligible for the service, although the degree to which this is enforced is questionable. Beyond this there is a distinct lack of information available from within the payday lending market concerning the profile of payday lending users. Indeed, the most recent demographic description of payday users is from the Office of Fair Trading (OFT) 2010 Review of High Cost Credit, which describes payday lending customers as a diverse population: they are employed, there are more male customers than female, most customers earn more than £1,000 per month but most could be described as low income, and live in rented accommodation. Most payday loan customers are unmarried and have no children[33].

Payday lender 'Money in Advance' (no longer trading) declared in 2013 that the average age of their borrowers is 34 years and 61% were male, while 49% of customers rented their home, and 16% were homeowners. All borrowers had a bank account and a mobile phone, which was a prerequisite for the loan being offered[34].

An important determinant of mental and physical health when profiling payday borrowers is their level of existing debt or financial difficulties. The 2014 Financial Conduct Authority (FCA) consultation on proposals for a price cap on high-cost short-term credit (HCSTC), which refers to a broader set of fringe banking products of which payday loans are the predominant product, shows that, when they apply for HCSTC loans, many customers are in difficult, and deteriorating, financial situations[35].

- **Income and age:** HCSTC users are younger than the average UK population as a whole (33 years of age versus 40 years) and have lower income levels (the majority earn under £18,000 versus the UK average income of £26,500 per year).

- **Savings:** Around 65% have no savings compared with 32% of the UK population; most of those who do save have less than £500 (compared with a median of £1,500-3,000 for the UK population).

- **Other borrowing options:** 64% have outstanding debt from other types of lender, mainly credit cards, overdrafts, household bills or mobile phones.

- **Financial distress:** Since applying for a loan, 50% reported experiencing financial distress and 44% missed at least one bill payment.

- **Debt:** Borrowers' debt continued to increase in the year after they borrowed HCSTC; overdraft breaches and missed payments increased to 33% and 60% respectively. Furthermore, 30% of their outstanding credit balances (including HCSTC) were in default a year after they borrowed HCSTC.

A comprehensive 2015 study into payday lending in the USA supports the FCA's findings in relation to the financial vulnerability of HCSTC borrowers: at the time of their first applications, prospective payday borrowers appear to be having considerable financial difficulties. A specific insight from the study is that payday applicants were generally unsuccessful in getting credit, obtaining only 1.4 new accounts from an average of five enquiries. It would seem that first-time payday applicants appear to be searching intensively, but unsuccessfully, for traditional (and presumably cheaper) credit[36]. However, as this study was based in the USA, it is not clear if these findings are applicable to the UK payday market.

2. What are payday loans used for?

Understanding of UK consumers' actual uses for payday loans is hampered again by a lack of accessible market information. The FCA 2014 consultation adopted a representative survey of 2,000 HCSTC borrowers which found that[35]:

- 55% said they used loans for everyday expenditure (housing, basic living costs and bills).
- 20% said the loans were used for discretionary spending (for example, holidays, social activities, weddings and gifts).

Generally it is recognised that payday loans are used to buffer shortfalls in income and for unexpected outgoings. The FCA consultation survey focuses on HCSTC loans; a slightly broader range of products than just payday loans. A 2013 UK survey of 1,500 specifically payday loan borrowers also reports the predominant usage of payday loans is for essential living and utility costs. However, the payday borrower survey paints a bleaker picture, finding that almost four-fifths of payday loans were used for food. The study found:

- 78% of respondents used payday loans to buy food
- 52% of payday loans were used to pay electricity and gas bills

- 32% of borrowers used payday loans to meet rent or mortgage payments
- 27% of payday loans were used to pay for Christmas, 15% for car repairs/ purchase and 10% for home improvements[37].

A Money Advice Service survey of 2,000 UK adults describes important temporal usage of payday loans; the survey estimates that approximately 1.2 million payday loans were used to pay for Christmas presents and festivities in 2013[38]. The latter two surveys cited above represent populations accessing a national charity and statutory advice service respectively; it remains unclear if the cited uses of payday loans are representative of the wider payday borrower population.

3. What factors drive the demand for payday lending?

Broadly speaking two discourses have emerged across the literature reviewed relevant to the accumulation of personal debt and the use of products such as payday loans. One discourse positions people's experiences of debt (and their responses to it) in the context of national and international practices and policies: including globalisation, changing labour markets, and (until recently) poorly regulated financial industries. The other discourse is an individualised focus on financial management – framing personal debt as a problem of irresponsible individual consumption[39]. Both discourses are complex and there is evidence to support each of them: the former will be described below, and recent research proposes that the latter is embedded within levels of materialism and aspiration unmatched by income[40].

The GCPH has recently described the changing nature of employment and poverty in Scotland[41]; the main trends described by the GCPH have also been evidenced across the UK[42-44]. The proportion of households experiencing in-work poverty has markedly risen in recent years. Contributing to this, there have also been increases in low-paid, short-term and precarious employment. The 2008 economic recession and the evidenced shift towards an economy dominated by the service sector have both further compromised labour market stability in Scotland[41].

Rates of temporary and part-time work are also increasing across Scotland. Women are more likely to be in part-time work compared with men, however the concept of underemployment (for example, wishing to move from a temporary to a permanent job contract, or requiring full-time working hours but only working part-time) is a growing concern for both genders. As of 2011, over a third of all temporary workers in Scotland would like, but cannot find, a permanent job[41].

At the time of writing there is a lack of empirical evidence directly linking the recent economic downturn and changes in poverty and labour market conditions to the increased demand for payday lending. However, given that the predominant users of payday lending (working, low income individuals and households) are those most affected by increasing rates of in-work poverty, low-paid, short-term precarious employment and underemployment, it is reasonable to assume that these factors have played some part in the increased demand for payday loans in the UK.

4. Do payday lenders target disadvantaged communities?

It is generally understood that UK payday lenders open premises within disadvantaged city centre and urban areas, taking occupancy on declining high streets (as larger retailers move to shopping malls and outlets)[45]. There are no current UK studies which explore this empirically, however evidence from the USA shows that payday lenders do actively target their products to low income individuals and households and disadvantaged communities; this appears to be an integral part of the payday lending business model. Targeting primarily concerns geographic proximity and access to payday loan establishments; there are significantly higher numbers of payday lending retail units per head of population within disadvantaged and minority communities compared with working and middle class neighbourhoods[46]. There is also evidence that payday lenders target sections of the population which have a history of financial vulnerability, such as ethnic minorities and military personnel – rates of payday lending units within the vicinity of military bases are significantly higher even compared with disadvantaged communities overall[47].

Close geographic proximity to payday loan shops and their density within disadvantaged communities are both associated with an increased likelihood of payday loan use[48]. The increase in payday lending establishments within disadvantaged communities coincides with a dramatic rate of closures of mainstream banks within the same communities[13].

5. Do payday lenders operate irresponsibly?

Evidence from the 2013 OFT Compliance Review of UK payday lenders paints a concerning picture of market-wide irresponsible operation and lending among payday lenders. The review concludes that the payday loans market is not working well for many consumers. The review presents evidence of widespread non-compliance with the Consumer Credit Act and other legislation; payday lenders also generally do not meet the standards set out in the OFT's Irresponsible Lending Guidance[16].

In summary, the OFT conclude that:

- Payday lenders compete by emphasising speed and easy access to loans (through misleading advertising materials) but borrowers are not getting a balanced picture of the costs and risks of taking out a payday loan.
- Across the sector, there is evidence that the majority of lenders are not conducting adequate affordability assessments and their revenue streams rely heavily on refinancing or deferring the loan, known as 'rolling over' (described in next section).
- Many lenders are not treating borrowers in financial difficulty with understanding or forbearance (in line with industry regulation). Many are promoting a deferral or 'rollover' of the loan (where an initial loan period can be extended, provided monthly loan interest and charges are met) when borrowers would be better served by a repayment plan.
- Rollovers and the resultant costs and penalties are poorly explained to consumers and their misuse is causing distress to some consumers, in some cases leaving them with insufficient funds to cover their most basic living costs.
- A number of payday firms are using aggressive debt collection practices which fall far below the standards set out in the OFT's Debt Collection Guidance.
- Across the industry the OFT reports evidence of poor internal procedures and processes, not least a failure to put in place effective complaint handling systems.

The findings of the OFT's Compliance Review are supported by a range of studies which also cite: how the irresponsible promotion of payday lending obscures the borrowers' understanding of the risk and penalties for late repayment; the damage loan rollovers can have on individual financial management, including paying housing costs and basic utilities[12]; and aggressive debt collection practice involving repeated phone calls and lettering, often tantamount to harassment[49]. In 2014 the market leader Wonga apologised and agreed to pay compensation to customers after using letters from falsified legal firms when chasing debts[50].

6. Does payday lending encourage chronic borrowing?

The predominant criticism of payday lending concerns debt repayment deferment or loan 'rollovers'. Most payday lenders allow loans to be deferred beyond the original agreed repayment date provided the borrower pays another month's administration fees and interest charges. Rollover loans are handled differently among payday loan providers, however until recently (2014 regulatory reforms are described in next section) no limits on the number of times a loan can be deferred, or ‘rolled over’ were imposed, thereby dramatically lengthening the repayment period and exponentially increasing the overall cost of the loan[49].

There is empirical evidence that a significant proportion of payday lending profits result from the financial mismanagement of borrowers or the inability of borrowers to repay the original loan[16]. Furthermore the profit margins received from such clients is markedly higher than for those who repay their loans within the agreed period. The 2013 OFT Compliance Review states that:

- 28% of loans issued in 2011/12 were rolled over or refinanced at least once, which accounted for just under half of total payday lending revenue
- 5% of loans were rolled over four times or more, accounting for 19% of total revenue.

In the same review, debt advisers reported to the OFT that borrowers seeking help with payday lending debts had on average rolled over at least four times and had six separate payday loans[16].

Payday lenders may well defend these figures and their practice; they provide a speedy, valued and in-demand loan service for high credit risk individuals to whom mainstream banks will not lend. The high interest rates and fees reflect the considerably higher financial risk undertaken by the lender, and should not be compared with those of mainstream banking as the products in question are so fundamentally different[51]. Indeed opinion is divided; high profile figures, such as the head of the Financial Services Consumers Panel, have spoken out in favour of payday lenders, stating that criticisms often equate to little more than “middle-class value judgements” of the industry and an assumption of financial illiteracy among its clientele[52].

7. What are the payday lending regulatory reforms?

In December 2013, the UK government gave the FCA the duty to introduce a price cap to secure an appropriate degree of protection from excessive charges for borrowers of high-cost short-term credit[53]. The FCA price cap rules came into effect on 2nd January 2015. The caps affecting payday lenders are summarised below.

- **Initial cost cap of 0.8% per day** – lowering the cost for most borrowers. For all high-cost short-term credit loans, interest and fees must not exceed 0.8% per day of the amount borrowed; this capped interest rate is substantially lower than rates observed in the payday market prior to the regulation. It means that a borrower taking out a typical loan over 30 days and repaying on time will not pay more than £24 per £100 borrowed.

- **Fixed default fees capped at £15** – protecting borrowers struggling to repay. If borrowers do not repay their loans on time, default charges must not exceed £15. Interest on unpaid balances and default charges must not exceed the initial rate.

- **Total cost cap of 100%** – protecting borrowers from spiralling debts. Borrowers must never have to pay back more in fees and interest than the original amount borrowed.

8. Are the payday lending regulatory reforms working?

It is too early to fully assess the impacts of the FCA regulatory reforms on the payday lending market. However, on first inspection the reforms appear to strike at the heart of OFT's concerns surrounding the payday market's irresponsible practice, namely the excessive interest rates and fees, trapping borrowers in cycles of rollovers and spiralling debts. The FCA caps on interest rates, fees, rollovers and total debt accrued firstly appear to protect borrowers from unmanageable debt, but secondly will potentially lead to more responsible lending and practice within the payday lending market. The immediate aftermath of the regulatory reforms is that a number of smaller payday lenders have ceased trading, as they cannot continue to operate under the imposed market restrictions.

The FCA's 2014 consultation on the proposed regulatory reforms did identify a number of consequences which may be detrimental to payday borrowers as a result of the caps. These include[35]:

More people unable to receive loans – with significantly curtailed profit margins, payday lenders will be keen to avoid loan defaults and unprofitable repayment delays; this will make lenders more selective as to whom they provide loans for, meaning more ethical and rigorous affordability assessments involving clearer communication of loan terms and charges to borrowers. But this will also mean an increase in vulnerable borrowers who cannot access payday loan products, have no access to legal credit and who are now unable to purchase vital utilities and food.

The FCA estimates that 160,000 people – or 11% of those applying for a payday loan – would be denied a loan under the proposed caps.

Increased use of illegal lenders – as a result of many people being unable to receive payday loans, in desperate situations some may turn to loan sharks – illegal lenders that are likely to be worse for consumers than current payday lenders. The FCA said there was "inconclusive evidence" about how likely this was, based on similar regulatory reform seen in other EU countries[34]. Although how well placed the FCA (and its European counterparts) are to assess the prevalence of and access to illegal lending at a community level must be questioned.

A shrinking market leads to less competition and fewer products for borrowers – according to FCA research, out of around 400 payday lenders just 10 account for around 88% of revenues. With an unprecedented 43% drop in industry profits resulting from the FCA regulatory intervention, the majority of payday lenders will go out of business. The FCA estimates that only the three biggest payday lenders – Wonga, Dollar and QuickQuid – would remain. It is likely this will lead to a homogenous marketplace and a stark drop in industry competitiveness based on reduced access to funds, customer service and speed of delivery; the very characteristics payday borrowers value.

9. Is there a viable alternative to payday lending?

This question is pivotally important to future policy and regulatory responses concerning fringe banking and payday loan products, and potentially to the health and wellbeing of vulnerable payday borrowers. Traditional banks offer no alternative HCSTC products similar to payday loans, other than overdrafts, which are often more expensive than payday products. Furthermore, traditional banks generally do not offer loans to prospective low-income borrowers with any sort of adverse credit history[54].

Credit unions have generally been more vocal than banks in claiming to be viable competitors to payday lenders. However, very few credit unions currently offer payday loans; this is because if they offer a payday product within their comparatively lower interest rates and fee structures they are likely to incur a loss because payday loans represent significantly higher lending risk[55]. For the extreme minority of credit unions that offer payday products, the overall costs of borrowing are very similar to those in the payday market. Furthermore, credit union payday loan products have stricter credit criteria, which generate much lower default rates but exclude typical payday borrowers out of the market[56].

Most payday borrowers indicate a strong preference for a less restrictive but higher-priced payday product[57], compared with a credit union version of a payday loan. The preference for mainstream payday products is driven by service characteristics – credit unions generally have locations and business hours that borrowers find less convenient than those of payday lenders. Loan applications are complicated and longer at credit unions – notably the availability of approved loan funds is substantially quicker at payday lenders, in most instances payday borrowers will leave the payday establishment in possession of cash funds well within one hour or, if the loan transaction is approved online, an electronic transfer of funds is almost immediate[58]. Furthermore, credit unions operate within traditional banking credit assessment systems – defaulting on a credit union payday loan will harm borrowers' credit scores, whereas default on a standard payday loan does not directly harm one's credit score (payday loans can only affect credit scores indirectly, insofar as the increased debt and higher interest rates and fees may detrimentally affect borrowers' ability to meet their financial obligations in general)[56,57].

Microfinance and microcredit, broadly characterised as not-for-profit lending to the poor, have been the subject of extensive examination in recent decades[59]. However, the concept has become less popular in recent years and significantly less well resourced, especially post-2008 economic recession and as systematic criticisms of the impacts have emerged[60]. Irrespective of the debate concerning microcredit, the practice does not offer a comparable product to payday lending; indeed the current focus of microcredit in Scotland appears to be tending towards enterprise and self-employment[61].

Employers lending to employees is an encouraging development which has gathered momentum over the last decade, where low or no interest employer loans can be repaid directly from pay-packets over agreed timescales. Indeed, there have been some lending schemes where employers have worked in partnership with credit unions[62]. From the limited evidence available, it appears however that employer models of lending do not replicate the characteristics of payday loans, particularly in terms of the speed at which loan funds are made available.

Overall, the evidence is clear – presently there are no directly comparable or viable alternatives to payday loans, particularly in terms of speed of loan availability and ease of access. The assertion that other financial institutions can serve the payday market with lower interest and fee structures is unsubstantiated.

10. Is payday lending a risk to public health?

On the balance of evidence presented so far, public health has a responsibility to recognise payday lending as a contemporary socioeconomic determinant of health and wellbeing. Indeed, the UK Faculty of Public Health has stated its concern for the wider determinants of health, including socioeconomic factors and how they impact on population health. In responding to emerging determinants and influences, the Faculty has emphasised a collective responsibility for health and a commitment to working in partnership to promote population health[63].

The scale of payday lending is of societal significance; it has been estimated that payday lending outlets are more prevalent than leading fast food restaurants[64]. Based on an estimated 1.7 million UK payday loan users in 2013, approximately 500,000 borrowers rolled their payday loan over at least once[16], representing a degree of financial difficulty and unmanageable payday loan debt. Approximately 80,000 borrowers rolled over at least four times[16], representing chronic payday borrowing and extreme financial vulnerability. The overall payday loan population of 1.7 million borrowers in 2013 is substantial. In comparative public health terms, this population is similar in size to the number of people in the UK in contact with specialist mental health services (1.8 million patients across the UK in 2014/15)[65].

The evidence described in this paper suggests that payday lending is a risk to population health. Central to this risk is the increased susceptibility to mental health disorders (and worsened physical health in the longer term) among borrower populations, through four cumulative mechanisms:

1. Low income and existing adverse socioeconomic conditions.
2. Existing personal debt and financial difficulties.
3. Exhausted or excluded access to low interest credit.
4. Worsened debt burden through unmanageable payday loans, high interest and fees.

The FCA reform of the payday lending regulation, introduced in 2015 placed appropriate restrictions on the market. However, the reforms do not necessarily mitigate the potential harm to public health for the populations involved. The reforms do not address the underlying demand for HCSTC among vulnerable, low-income populations experiencing financial difficulties. The reforms may indeed unintentionally worsen the financial and living circumstances for some who now do not meet the stricter criteria for payday loans. In these situations unsuccessful borrowers may turn to illegal forms of credit, risking violence in the form of debt collection, losing their home or going without living essentials such as food, electricity or heating during periods of acute financial vulnerability[35].

DISCUSSION

Payday lending is a controversial and highly contested fringe banking practice, the evidence reviewed here underlines that payday lenders have profited substantially from vulnerable borrowers who cannot repay their debt. Furthermore, until the 2015 regulatory reform, the payday industry was beset by predatory, irresponsible and unscrupulous practice[35,53]. This briefing paper also makes clear that there are substantial negative population health consequences associated with payday loans and chronic debt, and that the number of borrowers affected is significant in societal and public health terms.

On the other hand, payday lenders are the only institutions meeting the specific financial needs of a high-risk, vulnerable and sizable population whom mainstream banking has effectively turned its back on, and for whom credit union, microcredit or employer loans do not adequately serve. The 2015 FCA regulatory reform of payday lending addresses important industry concerns. However, like most examples of state regulation within financial markets, the positive impacts may not be experienced by all consumers and may potentially be detrimental for some consumers. Indeed, the reforms do not currently represent a mechanism to address the fundamental market demand for easy access, rapidly available, short-term credit among some consumers.

The policy responses required must promote and enable progressive action to examine and address the demand for easy access HCSTC among sections of the working population. In the short term, positive steps would enable ethical, affordable, timely and easy access to credit for vulnerable families during times of acute financial distress and, in the longer term, would work upstream across a range of areas to address and reduce the considerable and repeated demand for HCSTC within vulnerable households. Actions to address this demand would need to consider financial vulnerability in terms of both household *income* and *expenditure*.

Reducing the demand for HCSTC across society might be achieved in part by boosting income within vulnerable working households through central macroeconomic levers, such as increases to welfare support and minimum wage or adoption of the Living Wage[66], and through action to improve quality of work and employment. This would result in households being more likely to be able to meet housing, utility and food costs without accruing debt and more able to effectively combat the financial insecurity associated with underemployment, zero-hour contracts and precarious jobs.

Reducing household expenditure (including on HCSTC repayments) may also require improved financial literacy and planning among current payday borrowers, the profile of which suggests young, single, low-income men might be most in need.

Access to money advice and debt consolidation agencies among this group is low[67]; this should be reviewed and the barriers to access identified and addressed. In the longer term, promoting access to training, continued education and advice on career progression will support payday borrowers in moving on from low income, precarious and underemployed jobs.

This paper highlights the need for financial 'safety nets' for low-income, working populations. It is recognised that many local services, such as health and social care, charities and communities themselves have provided safety nets in various forms, not least the recent and high profile increases in foodbanks[68] and the emergence of promising community co-operatives[69]. However, awareness of and access to locally driven services can be variable and may be compromised by the poor mental health of those experiencing chronic debt. At a societal level, one option which could be considered further is whether real-time and responsive support could be offered within the structure of the welfare system to meet the requirements of working payday borrowers (without the market's interest rate structure). This would require significant resource within welfare budgets for loans and their administration, but if payday-style loans were delivered in this way they could be offset against future welfare payments, meaning there would be no loan defaults. However, even small monthly reductions in income (to repay 'loans') could plunge some households into financial difficulty again. The ability of the welfare system and/or local public sector partner organisations to provide a form of financial safety net, potentially means-tested, is worthy of consideration and may align well with the ongoing development of the online universal credit system[70].

It may however be limiting to focus entirely on monetary issues and alternative financial models to payday lending. Financial mismanagement and chronic debt are likely to be symptomatic of more complex borrower vulnerability and emergent forms of disadvantage within working populations. Contemporary financial vulnerability is complex; financial vulnerability acts as a driver for accruing debt (and potential use of payday loans), and debt in turn is a driver of financial vulnerability. It is also limiting to consider debt and financial vulnerability as affecting only borrowers; evidence supports that the social, emotional and behavioural damage of financial vulnerability adversely affects the families and children of those in stressful financial situations[71]. Where payday borrowing is a symptom of financial vulnerability, individuals are more likely to benefit from sustained, holistic and person-centred support and advice potentially involving a range of services. Support services should focus on household income and expenditure, current debt management as well as longer-term routes out of financial vulnerability. It is also vital to deliver appropriate social, mental and emotional support, designed to reduce the burden of stress and promote health and wellbeing while experiencing being in debt.

CONCLUSION

The payday lending market is going through a period of rapid change as a result of the FCA regulatory reform. The long term prospects for the market are uncertain, but in the short term it will become less competitive, more selective and hopefully more responsible, transparent and accountable. Essentially, the reforms have made the conduct of this form of fringe banking more in line with mainstream banking, the consequence of which may be to push many payday borrowers – low-income, working individuals and households – deeper into financial exclusion.

What is clear from the evidence reviewed is that payday lending represents a risk to population health by exacerbating debt, financial difficulties and mental health problems among already vulnerable populations. Payday lending is however a market that is simply responding to a demand for easy access, rapid and short-term credit among low income, working populations in order to purchase basic living essentials such as food. In this regard payday lending has become a toxic financial safety net for many households. With a current lack of viable alternatives to payday lending it appears the practice will continue for the foreseeable future and is therefore a societal policy priority as well as a public health concern.

Moving forward it is important to broaden the lens through which payday lending and financial vulnerability are considered. These issues are not just monetary but appear inextricably symptomatic of more complex labour market and employment dynamics and contemporary forms of disadvantage within working populations. The collective role of the state, public services and the third sector in providing local debt management and consolidation solutions alongside holistic and person-centred support and educational opportunities is vital. The societal need for viable, sustainable and accessible financial ‘safety nets’ for vulnerable individuals and families is a key policy concern.

KEY MESSAGES

- **Payday lending is a contemporary public health concern:** the vulnerability of the populations involved, the urgency, scale and growth of the issue coupled with the corrosive nature of personal debt and financial vulnerability to mental and physical health are key factors in this.
- **Provision of viable alternatives to payday lending is a societal policy priority requiring immediate attention:** the demand for rapid, easy access and short-term credit among low-income households is not currently met by mainstream banking, credit unions, microcredit or employer lending, nor do the 2014 Financial Conduct Authority regulatory reforms address these demands; indeed the reforms may exacerbate demand for some borrowers.
- **It is limiting to focus entirely on the monetary consequences of debt and payday lending:** alongside populations experiencing chronic debt, payday borrowers should have access to a range of sustained and person-centred services and support. To help manage their debt and mitigate the damaging effects to health and wellbeing, longer-term support should involve access to training, continued education and career advice.
- **Greater transparency is required within the payday lending industry:** it would help services and support for payday borrowers if there were a clearer and timelier profile of borrower demographics and patterns of borrowing.

REFERENCES

1. Dorling D. Unemployment and health. *British Medical Journal* 2009;338:b829.
2. Standing G. *The precariat: The new dangerous class.* New York: Bloomsbury USA; 2011.
3. Halleröd B, Ekbrand H, Bengtsson M. In-work poverty and labour market trajectories: Poverty risks among the working population in 22 European countries. *Journal of European Social Policy* 2015;25(5):473-488.
4. Shildrick T, MacDonald R, Webster C. *Poverty and insecurity: Life in low-pay, no-pay Britain.* London: Policy Press; 2012.
5. Skapinakis P, Weich S, Lewis G, Singleton N, Araya R. Socio-economic position and common mental disorders: longitudinal study in the general population in the UK. *British Journal of Psychiatry* 2006;189:109-117.
6. Hintikka J, Kontula O, Saarinen P, Tanskanen A, Koskela K, Viinama H. Debt and suicidal behaviour in the Finnish general population. A*cta Psychiatrica Scandinavica* 1998;98:493-496.
7. Taylor MP, Pevalin DJ, Todd J. The psychological costs of unsustainable housing commitments. *Psychological Medicine* 2007;37:1027-1036.
8. Cooper C, Bebbington PE, Meltzer H, Bhugra D, Brugha T, Jenkins R, Farrell M, King M. Depression and common mental disorders in lone parents: results of the 2000 national psychiatric morbidity survey. *Psychological Medicine* 2008;38:335-342.
9. Singh D. The UK Banking Act 2009, pre-insolvency and early intervention: Policy and practice. *Journal of Business Law* 2011;(1):20-42.
10. Carter SP. Payday loan and pawnshop usage: the impact of allowing payday loan rollovers. *Journal of Consumer Affairs* 2015;49(2):436-456.
11. Caskey JP. *Fringe Banking and the Rise of Payday Lending, Credit Markets for the Poor.* New York: Russell Sage Foundation; 2005.
12. Melzer BT. The real costs of credit access: Evidence from the payday lending market. *The Quarterly Journal of Economics* 2011;126(1):517-555.
13. Mosley P, Lenton P. *Financial Exclusion and the Poverty Trap: overcoming deprivation in the inner city.* New York: Routledge; 2012.
14. Zinman J. Restricting Consumer Credit Access: Household Survey Evidence on Effects around the Oregon Rate Cap. *Journal of Banking & Finance* 2010;34(3):546-556.

15. Stegman M. Payday Lending. *Journal of Economic Perspectives* 2007;21:169-190.

16. Office of Fair Trading. *Payday lending compliance review: Final Report.* London: OFT; 2013.

17. Nettleton S, Burrows R. Mortgage debt, insecure home ownership and health: an exploratory analysis. *Sociology of Health & Illness* 1998;20:731-753.

18. Fitch C, Hamilton S, Bassett P, Davey R. The relationship between personal debt and mental health: a systematic review. *Mental Health Review Journal* 2011;16(4):153-166.

19. Meltzer H, Bebbington P, Brugha T, Farrel, M, Jenkins R. The relationship between personal debt and specific common mental disorders. *The European Journal of Public Health* 2012;23(1):108-113.

20. Bridges S, Disney R. Debt and depression. *Journal of Health Economics* 2010;29:388-403.

21. Jenkins R, Bhugra D, Bebbington P, Brugha T, Farrell M, Coid J, Meltzer H. Debt, income and mental disorder in the general population. *Psychological Medicine* 2008;38(10):1485-1493.

22. Drentea P, Reynolds JR. Neither a borrower nor a lender be the relative importance of debt and SES for mental health among older adults. *Journal of Aging and Health* 2012;24(4):673-695.

23. Cohen S, Janicki-Deverts D, Miller GE. Psychological stress and disease. *JAMA* 2007;298:1685-1687.

24. Shiels PG, McGlynn LM, MacIntyre A, Johnson PC, Batty GD, Burns H, Cavanagh J, Deans KA, Ford I, McConnachie A, McGinty A, McLean JS, Millar K, Sattar N, Tannahill C, Velupillai YN, Packard CJ. Accelerated telomere attrition is associated with relative household income, diet and inflammation in the pSoBid cohort. *PLoS One* 2011;6(7):e22521.

25. Marmot M, Wilkinson R. *Social determinants of health.* Oxford: Oxford University Press; 2009.

26. Shaw D, Scully J, Hart T. The paradox of social resilience: How cognitive strategies and coping mechanisms attenuate and accentuate resilience. *Global Environmental Change* 2014;25:194-203.

27. Strang J, Gossop M, Witton J. Drug use, drug problems and drug addiction: social influences and social responses. In: Morgan C, Bhugra D (eds.) *Principles of Social Psychiatry.* Chichester: Wiley; 2010.

28. Cross W, Hayter M, Jackson D, Cleary M. Meeting the health care needs associated with poverty, homelessness and social exclusion: the need for an interprofessional approach. *Journal of Clinical Nursing* 2012;21(7-8):907-908.

29. Drentea P. Age, debt and anxiety. *Journal of Health and Social Behaviour* 2000;41:437-450.

30. Munster E, Ruger H, Ochsmann E, Letzel S, Toschke AM. Overindebtedness as a marker of socioeconomic status and its association with obesity: A cross-sectional study. *BMC Public Health* 2009;9:286.

31. O'Neill B, Prawitz A, Sorhaindo B, Kim J, Garman ET. Changes in health, negative financial events, and financial distress/financial well-being for debt management program clients. *Financial Counselling and Planning* 2006;17:46-63.

32. Lenton P, Mosley P. *Debt and health, working paper.* Sheffield: University of Sheffield; 2008.

33. Office of Fair Trading. *Review of high-cost credit Final report.* London: Crown Publishing; 2010.

34. Andrews J. Who Really uses payday loans? Yahoo Finance Online; 2013. Available at: https://uk.finance.yahoo.com/news/who-really-uses-payday-loans-083044214.html (accessed May 2016).

35. Financial Conduct Authority. Consultation Paper (CP14/10): Proposals for a price cap on high-cost short-term credit London: FCA; 2014. Available at: https://www.fca.org.uk/news/cp14-10-proposals-for-a-price-cap-on-high-cost-short-term-credit (accessed May 2016).

36. Bhutta N, Skiba P, Tobacman J. Payday loan choices and consequences. *Journal of Money, Credit and Banking* 2015;47(2-3):223-260.

37. Christians Against Poverty. Payday loans used to pay for food. Available at: http://www.poverty.ac.uk/editorial/payday-loans-used-pay-food (accessed May 2016).

38. Money Advice Service. A million people to use payday loans for Xmas. Available at: http://www.poverty.ac.uk/editorial/million-people-use-payday-loans-xmas (accessed May 2016).

39. Walker C, Burton M, Akhurst J, Degirmencioglu SM. Locked into the System? Critical Community Psychology Approaches to Personal Debt in the Context of Crises of Capital Accumulation. *Journal of Community & Applied Social Psychology* 2015;25(3):264-275.

40. Nepomuceno MV, Laroche M. The impact of materialism and anti-consumption lifestyles on personal debt and account balances. *Journal of Business Research* 2015;68(3):654-664.

41. Harkins C, Egan J. *The rise of in-work poverty and the changing nature of poverty and work in Scotland – what are the implications for population health?* Glasgow: GCPH; 2013.

42. MacInnes T, Aldridge H, Bushe S, Kenway P, Tinson A. *Monitoring poverty and social exclusion 2013.* York: Joseph Rowntree Foundation and The New Policy Institute; 2013.

43. Warren T. Work-time underemployment and financial hardship: class inequalities and recession in the UK. *Work, Employment & Society* 2015;29(2):191-212.

44. McDowell L, Batnitzky A, Dyer S. Global flows and local labour markets: precarious employment and migrant workers in the UK. In: *Gendered Lives: Gender Inequalities in Production and Reproduction.* Cheltenham: Edward Elgar Publishing Limited; 2012. p123-152.

45. Hurst C, Blackwell M. Town Teams, Portas Pilots and the future of the high street. *Journal of Urban Regeneration & Renewal* 2014;7(3):258-262.

46. King U, Wei L, Davis D, Ernst K. Race Matters: *The Concentration of Payday Lenders in African-American Neighbourhoods in North Carolina.* Durham: Center for Responsible Lending; 2006.

47. Oron A. Easy prey: *Evidence for race and military related targeting in the distribution of payday loan branches in Washington state.* Consulting Report, Department of Statistics, Washington: University of Washington; 2006.

48. Lim Y. *The Geography of Payday Lending: Living in the Path of a Payday Lender.* 37th Annual Association For Public Policy Analysis & Management (APPAM) Fall Conference. Miami, FL; November 2015.

49. Payne D, Raiborn C. The Ethics of Payday Loan Practices. *Ethics & Behavior* 2013;23(2):117-132.

50. The Guardian Online. Wonga's fake legal letters passed to police. The Guardian; 2015. Available at: https://www.theguardian.com/business/2014/jun/26/wonga-fake-legal-letters-passed-police (accessed May 2016).

51. Lawrence EC, Elliehausen G. A comparative analysis of payday loan customers. *Contemporary Economic Policy* 2008;26(2):299-316.

52. The Independent Online. Payday loans defended by new consumer champion. Available at: http://www.independent.co.uk/money/loans-credit/payday-loans-defended-by-new-consumer-champion-8906441.html (accessed May 2016).

53. Financial Conduct Authority. PS14/16 Detailed rules for the price cap on high-cost short-term credit. Including feedback on CP14/10 and final rules. London: FCA; 2014. Available at: http://www.fca.org.uk/news/ps14-16-detailed-rules-on-the-price-cap-on-high-cost-short-term-credit (accessed May 2016).

54. Sharifi S, Flores GM. Options for short-term credit in the United Kingdom. Social Science Research Network; 2013. Available at: http://bretton-woods.com/71501.html (accessed May 2016).

55. Melzer BT, Morgan DP. Competition in a consumer loan market: Payday loans and overdraft credit. *Journal of Financial Intermediation* 2015;24(1):25-44.

56. Carter SP. Payday Loan and Pawnshop Usage: The Impact of Allowing Payday Loan Rollovers. *Journal of Consumer Affairs* 2015;49(2):436-456.

57. Stango V. Some new evidence on competition in payday lending markets. *Contemporary Economic Policy* 2012;30(2):149-161.

58. Fejos A. Achieving Safety and Affordability in the UK Payday Loans Market. *Journal of Consumer Policy* 2015;38(2):181-202.

59. Mahmud M. *Repaying Microcredit Loans: A Natural Experiment on Liability Structure.* Kent: School of Economics, University of Kent; 2015.

60. Stewart R, van Rooyen C, Korth M, Chereni A, Rebelo Da Silva N, de Wet T. *Do micro-credit, micro-savings and micro-leasing serve as effective financial inclusion interventions enabling poor people, and especially women, to engage in meaningful economic opportunities in low- and middle-income countries. A systematic review of the evidence.* London: EPPI-Centre, Social Science Research Unit, Institute of Education, University of London; 2012.

61. McHugh N, Gillespie M, Loew J, Donaldson C. First Steps towards Self-Employment-Microcredit for Enterprise in Scotland. *Scottish Affairs* 2014;23(2):169-191.

62. Bounds A. Financial Times Online. Employer teams up with credit union to help staff with loans. Available at: http://www.ft.com/cms/s/0/f7aa289a-6a4f-11e4-8fca-00144feabdc0.html#axzz47myijaTN (accessed May 2016).

63. The UK's Faculty of Public Health. What is Public Health? Available at: http://www.fph.org.uk/what_is_public_health (accessed May 2016).

64. Stegman MA, Faris R. Payday lending: A business model that encourages chronic borrowing. *Economic Development Quarterly* 2003;17(1):8-32.

65. NHS Confederation Online. Key statistics on the NHS 2016. Available at: http://www.nhsconfed.org/resources/key-statistics-on-the-nhs (accessed August 2016).

66. Wills J, Linneker B. In-work poverty and the living wage in the United Kingdom*: a geographical perspective.* Transactions of the Institute of British Geographers 2014;39(2):182-194.

67. Youth Access. Research briefing: *Young people's access to advice.* London: Youth Access; October 2009.

68. Lambie-Mumford H. 'Every town should have one': emergency food banking in the UK. *Journal of Social Policy* 2013;42(01):73-89.

69. Smith SC, Rothbaum J. *IZA Policy Paper No. 68. Cooperatives in a Global Economy: Key Economic Issues, Recent Trends, and Potential for Development.* Bonn: Institute for the Study of Labor; 2013.

70. Brewer M, Browne J, Jin W. Universal Credit: A Preliminary Analysis of Its Impact on Incomes and Work Incentives. *Fiscal Studies* 2012;33(1):39-71.

71. Treanor M. The Effects of Financial Vulnerability and Mothers' Emotional Distress on Child Social, Emotional and Behavioural Well-Being: A Structural Equation Model. *Sociology* 2015. DOI: 10.1177/0038038515570144.

CONTACT

Chris Harkins
Senior Public Health Research Specialist
Glasgow Centre for Population Health

Email: Christopher.Harkins@glasgow.ac.uk
Web: www.gcph.co.uk
Twitter: @theGCPH

Glasgow Centre for Population Health