As one door closes

Experiences of illegal moneylending during an emerging cost of living crisis

June 2023

WE FIGHT FRAUD

Contents

fair4all finance

About us

Fair4All Finance

Working to make the financial system fairer for everyone

We're a not for profit organisation driving change in financial services to help the 17.5m people in vulnerable circumstances across the country.

The problem we're trying to solve

Millions of people are unable to access mainstream products and services others rely on to meet their financial needs. Without safety nets like credit, insurance or savings, everyday life events or financial shocks can tip people into vulnerable circumstances.

We're here to transform the system so that everyone has access to the right products and services, whenever they need them.

Our strategic priorities

- Increase the availability of affordable credit to sustainably meet customer needs
- Partner with banks and financial services providers to increase access to products and services
- Develop the market to consistently provide products that meet the needs of all customers

www.fair4allfinance.org.uk

We Fight Fraud

We Fight Fraud enables people and businesses to protect themselves against financial crime. We do this by testing and training businesses, conducting research and sharing expertise through business events and the media.

Our research projects into financial crime have been funded by the National Crime Agency, Lancaster University, Fair4All Finance and other leading partners in crime prevention. Our work is evidence-led, testing-informed and lived-experience driven.

www.wefightfraud.org

WE FIGHT FRAUD

Acknowledgements

This report was commissioned by Fair4All Finance and authored by **Dr Nicola Harding** and **Tony Sales** at We Fight Fraud.

Throughout the research process We Fight Fraud were supported by a Sounding Board convened by Fair4All Finance. Our thanks go to this group of external advisors for reviewing iterations of the report and providing guidance, input and support throughout:

Cath Wohlers, Operations Manager, National Illegal Moneylending Team

Elizabeth Emmons, Client Liaison Officer, Stop Loan Sharks Wales

John Pollock, Partnership and Support Officer, COSLA

Jason Wassell, Chief Executive, Consumer Credit Trade Association

Matt Greenwood, Head of Debt, Centre for Social Justice

The Consumer Council (Northern Ireland)

In addition to the Sounding Board several other individuals from Fair4All Finance made significant contributions to the report including:

Niall Alexander, Markets and Consumer Insights Manager

Ayesha Begum, Programme Manager, Strategy and Impact

Ellie Suckling, Social Research Advisor

James Corke, Strategic Communications Manager

Max Holloway, Content and Communications Associate

Tom Lake, Director of Policy and Strategy

A number of individuals within the FCA offered clarifications and insight into the report. Lastly, our thanks go to **everyone who shared their lived experiences** with the researchers to enable us to build a picture of the illegal moneylending landscape for both borrowers and lenders.

Executive summary

This research provides insight into the experiences of people with limited access to legal credit. **It is a self reported victim study. We make no assertion on what the scale of illegal lending in Great Britain currently is**.

Our researchers heard from **287 people about their experiences** and the ease with which they found illegal lending in their community. They also spoke to **eight illegal lenders**. Participants were drawn from South London, Preston, Port Talbot and Glasgow. **We do not draw national conclusions from a small sample**.[1]

Nevertheless, the findings reveal a considerable amount around what's happening in communities that are often experiencing multiple challenges.

Our research reveals a subterranean world where knowledge among a group of citizens on where and how to access small sums of credit are commonplace.

Few questions are asked of them on their ability to repay and borrowers are aware – in the main – that their lender is not operating legally. **They are phlegmatic about this. It is a means to an end – to access cash.** They face intimidation and threats to repay, but in many cases view this as an occupational hazard. Engagement in fraudulent and other illegal activities as a result are more likely.

Mainstream credit refusal is one key triggering factor shared by those borrowing from illegal lenders.

Clients of illegal money lenders appear to have significantly higher credit application refusals than the UK average.

The need for credit was a common theme within this research. When we asked people where else they had been successfully borrowing in recent years they told us doorstep lending, friends and family and illegal sources of credit.

With the option of home credit now closed or closing to most, we believe there is a possibility that people are using illegal lenders to meet the needs that had previously been met by legal forms of high cost credit.

We saw very few people with regular relationships with mainstream finance, and limited relationships with community finance. Some of this is down to marketing and visibility and lenders adhering to affordability criteria.

As the subprime lending market has shrunk, the opportunities for obtaining credit for people from low to middle income households have become harder to find. As these doors close, illegal lending appears to be taking the space of the subprime lender.

[1] The scope of the research didn't include digital illegal moneylending. Fair4All Finance have commissioned further research on this.

This study cannot show this empirically by estimating the size and value of the illegal lending market as this was not its purpose.

However, it was repeatedly apparent to researchers that illegal lenders have taken the space of subprime lenders by demonstrating the recent demographic expansion of the people who are now borrowing from illegal lenders.

The shift in who is borrowing appears significant. People on £20,000 annual incomes, perhaps with additional vulnerabilities and addictions but not always, are seeking to maintain a lifestyle or simply get by.

Mainstream and non-mainstream sources are tried and either unavailable or exhausted.

The potential harms are significant. Whilst researchers found that actual violence was rare, the pervasive threat of it was common.

The non-payment of debt to an illegal lender was often happening after a prolonged period of repayment where the lender was calculating the overall net gain from the relationship over time.

Therefore, violence was only utilised in the most extreme circumstances, or when it could be used communicatively to reinforce fear within the whole community. However, other harms were reported, such as sexual harassment and forced labour. The research reveals a precarious operation where only 1% of people we spoke to had reported their situation to the illegal moneylending teams around the UK

Here's a summary of our key findings

1 **Being declined by legal credit appears a key triggering factor to subsequently borrow from illegal lenders.** Clients (ie current users) of illegal money lenders have substantially higher credit application refusals than the UK average. They have tried to borrow from many places, many times and been refused.

2 **As the non-standard, subprime lending market has shrunk, the opportunities for illegal lending have grown**. Participants in this study told us that the number one place that they used to borrow from was home collected credit.

3 Debt is a uniting factor within the experiences of those borrowing from illegal lenders. Participants in our research consisted of three distinct profiles: current clients, those 'at risk' of re-engaging with illegal lenders, and the vulnerable. **Each of these categories is in debt with multiple lenders**, regardless of whether they have been refused credit in the last three years or not.

4 **The client demographic of those being lent to by illegal lenders appears to be not the most vulnerable but those in lower waged, full-time employment.** Illegal lenders increasingly don't appear to need to target people with vulnerabilities, often unwaged, as employed, waged clients may be seeking out illegal lenders to meet their credit needs.

5 Borrowers we spoke to were generally poor, with self-reported, below-average incomes, however **in the current client group we noted higher income levels above £20,000 and a greater likelihood of being employed** (full time or part time) from those in the at risk group.

6 **Illegal moneylending is a by-product of intersecting vulnerabilities.** The more vulnerabilities a person experiences,

particularly those that impact an individual's socio-economic circumstances, the more likely they are to engage with illegal moneylenders.

However, **employment is not as much of a protective factor against illegal lending as it has been in the past**. The percentage of employed people within our client sample was 70% versus 52% for the at risk sample. This potentially indicates a widening of the demographic using illegal lenders to now include more people in full or part time work, with a higher household income.

7 **This shift may be linked to the withdrawal of home collected credit, aka doorstep lending**. We suggest this from the responses made by people to our question on where they had previously tried and been successful or tried to use but been rejected for access to small sum credit in the past; **Home collected Credit featured as participants number one destination**. Where previous options to access credit were being removed for this cohort but they still were looking for funds for Christmas or birthdays (49%), daily living costs such as food (48%), and household bills (44%).

8 **The median income for current clients was in the range £20,000 - £24,999**, which would place the borrower into the third from bottom income decile. Not rich, not even above average but not among the poorest fifth in the UK. We did speak to outliers who would be considered higher earners, **around 7% of the survey earned more than £22 an hour**.

9 **Participants generally didn't view themselves as victims of illegal lenders unless they reported other harms, such as violence or threats of violence**. Such stories were present and relayed to researchers, but only for a small percentage.

Stories of violence against others were more prominent as a form of urban myth and legend, these served as messages to ensure borrowers repaid their debts. **In many cases borrowers were phlegmatic** about their choice of lender, aware that there was no legal status: **'He's just the money man'.**

10 **Current users of illegal moneylenders told us they were borrowing around £3,000 on average, with just over half saying their total debt was £3,000 or less**, the other half owing £3,000 or more. Generally, they borrowed hundreds not thousands of pounds at a time. Repayment rates were different but invariably involved **paying double and a general lack of awareness around the total cost of credit**.

11 As lenders are unlicenced there is no requirement on them to undertake affordability and creditworthiness assessments. Notably, lenders referenced their ability to lend customers the whole amount they sought, and invariably **illegal lenders' ability to provide 100% of funds sought was a contributory factor in the borrower using the lender.**

12 **Borrowing from illegal lenders may, for some, be a digital literacy issue with lack of access to in person or offline financial products**. 76% of respondents used both a smartphone app and websites to manage their bank accounts. However, this highlighted a financial digital exclusion of 24%, much larger than that of the general UK population (7%).

Considering the findings within this report, we recommend that:

1

Illegal Money Lending Teams (IMLT) are further resourced to widen their ability to support borrowers via increased outreach and engagement to highlight the increased nature of parallel lending and to further support the numbers of people engaged in illegal borrowing to come forward.

2

Policy makers and regulators accelerate the support for alternatives forms of credit available through commercial and community finance.

3

Policy makers consider the wider role of mainstream banks to support lending activity across the whole society they serve by considering policy reform to ensure more low income households have access to fair credit

4

Banks should reach out to their current customers where they believe that they may be at risk of borrowing from illegal lenders to offer fair, legal credit options. Often we have found that customers don't trust that mainstream will be able to serve them.

5

Credit providers should design products which work for changing customer needs, including revolving credit options and credit options which build scores gradually, to provide further buffers in the financial system to illegal money lending.

6

Policy makers and regulators consider further bespoke research with the remaining home credit market agents to explore the likelihood that illegal moneylending has increased beyond the figure reported in FCA Financial Lives and consider whether the reduction in forms of relationship-based credit to higher risk borrowers is a factor.

7

Policy makers extend the FG18/6 credit broking exemption that allows registered social landlords to make referrals to community finance providers, so that more organisations can reroute people away from illegal money lending without fear of any breach of credit broking regulations.

Introduction:
What do we already know about the credit market and illegal lending?

For illegal moneylending to flourish, there needs to be a significant shift away from availability of credit to low and lower-income households, in effect a credit vacuum. And in the UK over the past decade those products most popularly used by low-income households have become increasingly unavailable or reduced.

The reduction of forms of legal credit alongside tighter, welcome, regulation around affordability and creditworthiness creates the environment where the rejection rates for risk based, higher cost credit increases, but the demand remains.

There are signs across all forms of lending – prime to subprime - of an increase in credit declines and borrowers turning to friends and family lending. Consequently, reports now identify an increase in illegal moneylending itself, leading to financial, social, physical, and psychological harms for individuals and communities.

There have been several recent estimates of the size of illegal lending in the UK. **The Financial Conduct Authority (FCA)'s Financial Lives survey of 2020 reported less than 0.5% of UK adults were likely using illegal moneylenders**.

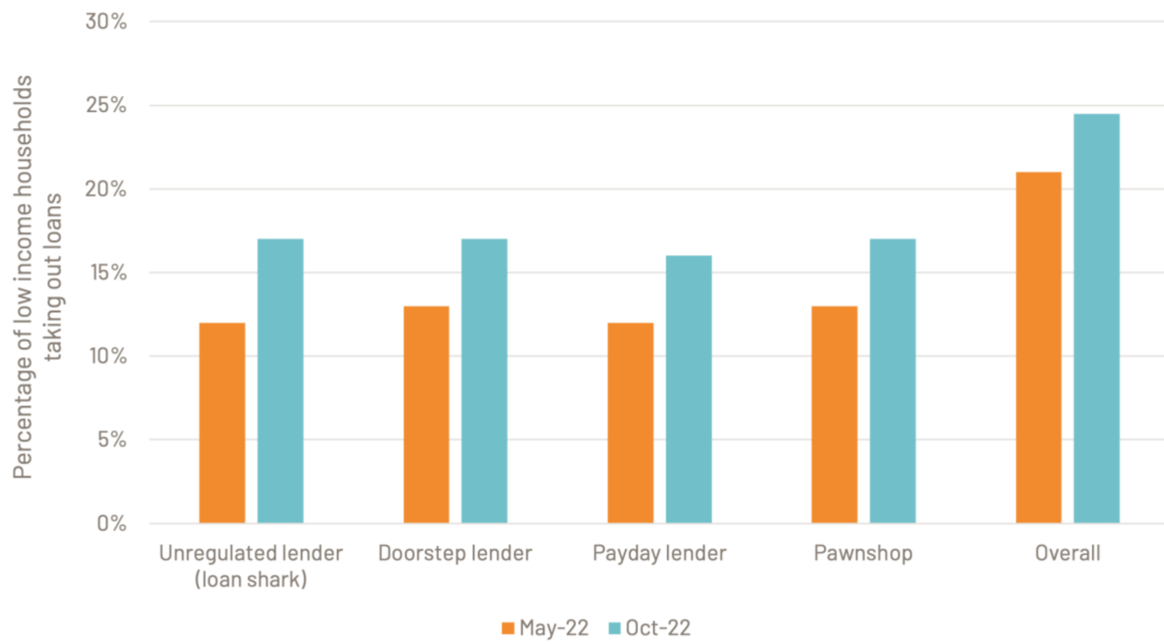
Other reports indicate that the figure may be over 6 times this estimate: **in 2022 the Centre for Social Justice (CSJ) estimated 1 million adults in England, or 2.5% of the population, used an illegal moneylender**.[2] The numbers are notoriously difficult to pin down, the FCA stating of their own figure **'claimed use is likely to understate the real level of use'**.

Half of all debt advisors say they have been told by a client about a loan shark.[3] In December 2022 Joseph Rowntree Foundation (JRF)[4] reported that 16% of lower income households were borrowing from unlicenced moneylenders equivalent to around 1.9million households in the UK (see figure 1 below).

---

[2] Centre for Social Justice (CSJ), Swimming with Sharks report
[3] FRIEND OR FOE? Equipping debt advisers to tackle illegal money lending (CSJ) April 2023
[4] Going under and without: JRF' s cost of living tracker, winter 2022/23 JRF December 2022

Figure 1: High-cost credit lending between May 2022 and October 2022 increased on every kind of loan (Joseph Rowntree Foundation)



There is a view too that the concerns may be overstated, considering there is a functioning credit market in the UK with 42.5 million[5] people holding some regulated consumer credit products. Bank of England figures identify over £200bn[6] of outstanding credit card and other forms of consumer credit, not mortgages.

In addition to this report, we are also concluding research to determine an estimate of the size of illegal lending, which will be published later this summer. Regardless of the size of the market, this report demonstrates the pervasiveness of the issue and the stark impacts on people's lives and wellbeing.

Alongside these findings, other reports, including the FCA Financial Lives have reported on the increased use of friends and family borrowing, which some, including the illegal moneylending teams in the UK, believe may mask illegal lending activity.

The FCA reported an increase from 3.6m[7] to 5.9m[8] people between 2017 and 2020[9] and in 2023 Resolution Foundation reported that 14% of all age groups had reported receiving financial help from friends or family in the past 12 months.[10]

[5] Financial Conduct Authority, Financial Lives 2020 product holding annex
[6] Statista, Total outstanding consumer credit excluding student loans in the UK from June 1993 to February 2023
[7] Financial Conduct Authority, Financial l Lives 2017
[8] Financial Conduct Authority, Financial Lives 2020 (February figure)
[9] Financial Conduct Authority, Financial Lives 2020 (October 2020)
[10] Resolution Foundation, Hoping and coping: How families were faring in March 2023, April 2023

Setting the scene: the current economic climate in the UK

Households, particularly lower income ones, can face the greatest pressure at times of national economic difficulty. Events such as the financial crash, recession, pandemic lockdowns or the current cost of living crisis lead to lenders tightening their credit availability. As a result borrowers find it more difficult to access credit, often when they need it the most.

Lower income households sometimes need credit as they often lack the savings to meet unexpected bills. Research supports the depletion of savings among lower income households, with both JRF and the Resolution Foundation highlighting this in recent reports.

JRF reported 'on average across all low-income households, 29% have no savings, or less than £200 in savings. This figure rises to 58% for people on Universal Credit, 54% for lone parents, 49% for private and social renters, and 47% for people aged 18-34, and people struggling with their mental health'[11].

Resolution Foundation reported that from December 2022 to March 2023, 44% of respondents – corresponding to over 23 million adults – reported using their savings to make ends meet. This wasn't a coping mechanism available to everyone however, with 15% of those surveyed – or 8 million adults – reporting having no savings to fall back on.[12]

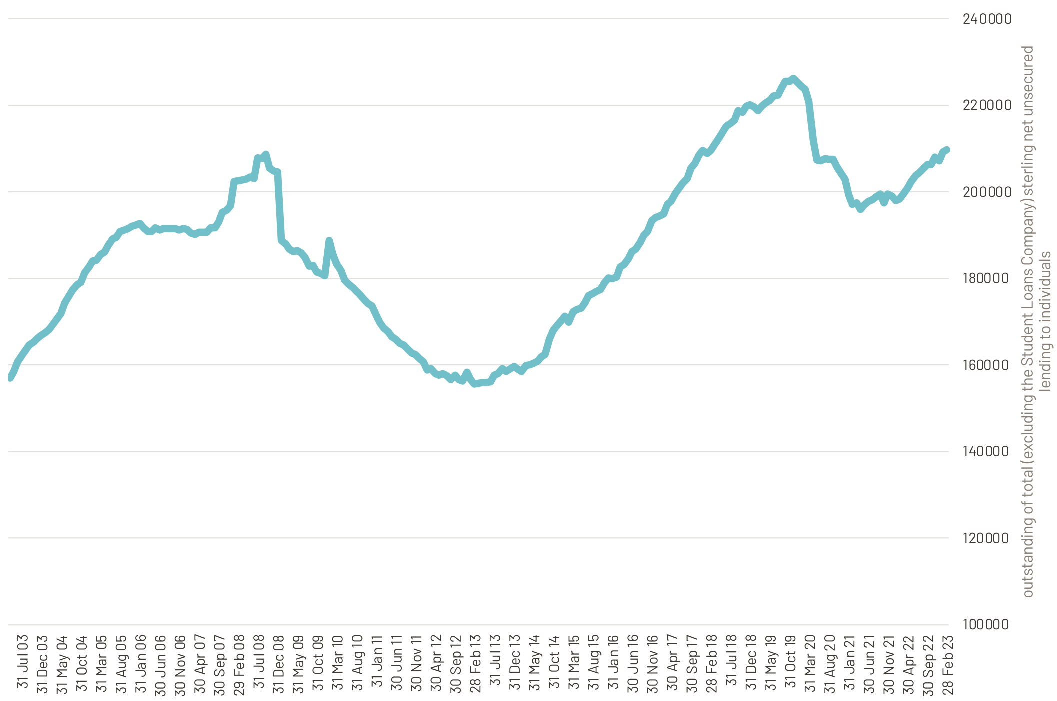
Without savings or friends and family to support their credit needs, lower income households traditionally used certain forms of high-cost credit. **For many years the UK has had a functioning credit market serving a range of prime, near prime and subprime credit scored borrowers. This is now changing.**

As of February 2023, UK citizens owed £210bn on credit cards and other forms of consumer credit (see figure 2 below). This figure decreased during the pandemic as wealthier households paid down debts (the outstanding balance on credit cards just before the pandemic lockdown in March 2020 had been c£72bn[13] in December 2019 and this reduced to c£58bn a year later in December 2020).

---

[11] JRF, Going under and without: JRF's cost of living tracker, winter 2022/23, December 2022
[12] Resolution Foundation, Hoping and coping: How families were faring in March 2023, April 2023
[13] Bank of England 'Credit union quarterly statistics - 2022 Q3'

Figure 2: UK Monthly amounts outstanding of total (excluding the Student Loans Company) sterling net unsecured lending to individuals (in sterling millions) not seasonally adjusted



Research from ONS (see figure 3 below) and Resolution Foundation (see figure 4 below) indicates lower income households were more likely than any other quintile to seek credit during the pandemic, rather than pay down debt as wealthier households did.

Figure 3: ONS: Increased credit use among lowest quintile[14]

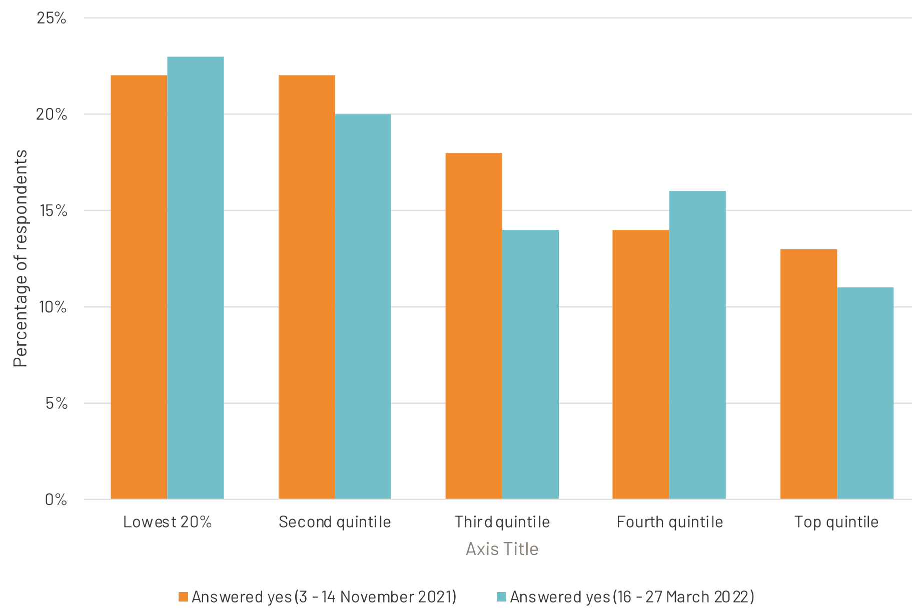
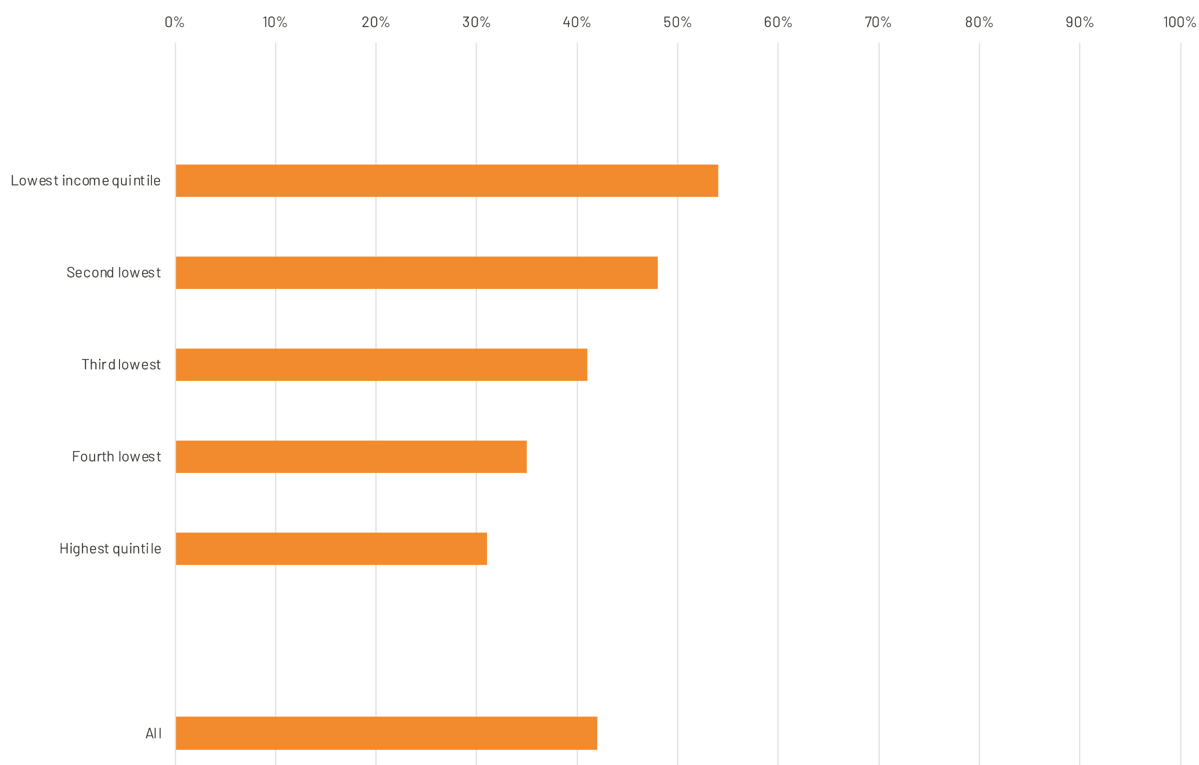


Figure 4: Proportion of working-age adults relying on additional borrowing or support for everyday living costs during the pandemic, by pre-pandemic family income quintile: UK, 17-22 September 2021[15]



[14] Office for National Statistics (ONS): The rising cost of living and its impacts on individuals in GB (Nov 2021 to March 2022) released 25th April 2022

[15] Resolution Foundation, Pandemic Pressures (Page 20), by M. Brewer and R. Patrick, 2021

With every downturn and recession there is an increased danger of those lenders that specialize in subprime borrowers doing well as stated by Provident Financial in their 2019 annual report:[16]

'There are approximately 10 to 12 million adults in the UK, or **1 in 5 of the adult population, who are not well served by mainstream lenders**. The market is reasonably dynamic with 1.5 to 2 million consumers moving in and out of it each year and it is **often counter cyclical with the number of consumers increasing during and immediately following a downturn as prime lenders tighten their risk appetite**.

Provident Financial is the biggest provider of consumer finance in this market and has 2.3 million customers. **There are no high street banks in our market, nor do we believe the more established banks have any desire to enter the space with a material presence.**'

In 2019, when Provident made those remarks there were just under 500,000 home credit loans issued in Q4, 2019. By Q4 2022 this figure had reduced to just under 100,000.[17]

Credit Supply Contraction

However, this current period of lenders tightened criteria is different from those that Provident defined in 2019. There is around £10bn less in outstanding credit, and this time around the backdrop is of an increasingly restricted access for lower income households.

Demand remains high, supply is reduced. Lender's criteria are tightened, and there is reducing availability for lower income households to access loans from sources that in the past decade met their needs.

Information held by Fair4All Finance from their investees shows that **in 2022 more applications for credit among a cohort of credit unions was declined than 2021**. The pressures of affordability, a fear of borrowers seeking redress from the Financial Ombudsman Service (FOS) via Claims Management Companies, and rising arrears have resulted in many lenders tightening their credit criteria.

The past decade has seen a 90% reduction, from £2.bn to c£250m between 2013 and 2022 of High-Cost Short Term Credit (HCSTC) loans, [18] and an 80%+ (and rising) reduction from £1.2bn to c£200m between 2013 and 2022 of home collected credit loans.[19]

Along with vastly reduced credit availability from those commercial lenders that remain, **there are no new players in home credit or HCSTC and have not been so for three years**.[20] Moreover, the credit that is available is not available to lower income households for a variety of reasons, including failed affordability assessments and tighter credit criteria. The demand appears to be unabated, the supply diminished, the opportunity for illegal moneylending increased.

---

[16] Provident Financial Group PLC Annual Report and Financial Statements 2019
[17] Financial Conduct Authority (Product Sales Data) PSD006 Q4, 2019 483,173 loans issued. Q4, 2022 99,994 loans issued, supplied to Fair4All Finance
[18] Financial Conduct Authority PSD006 (Product Sales Data) release to Fair4All Finance (Jan 2023) and FCA High Cost Credit Review Technical Annex 1: CRA data analysis of UK personal debt (July 2017), supplied to Fair4All Finance
[19] Financial Conduct Authority PSD006 (Product Sales Data) Information supplied to Fair4All Finance (Jan 2023) and FCA High Cost Credit Review Technical Annex 1: CRA data analysis of UK personal debt (July 2017), supplied to Fair4All Finance
[20] CCTA FOI request of FCA (2022), supplied to Fair4All Finance

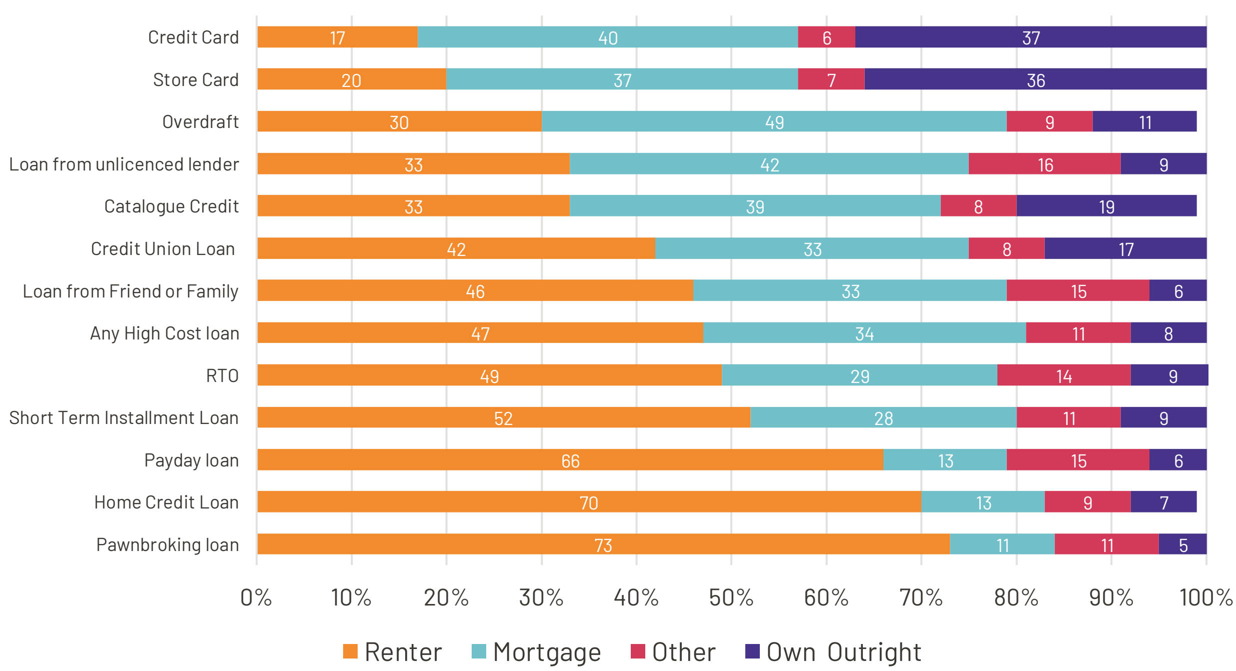
Since 2019, Provident Financial Group (PFG) has completely withdrawn from subprime lending and changed their name.[21] **In a decade their Consumer Credit Division reduced from 1.8m borrowers to nil. Other home credit companies have made the same decision with 80 fewer home credit lenders in the three year period 2019 to 2022.**[22]

Borrowers needs for credit services will not have changed. In fact, the increased cost of living and current economic climate may have increased the demand for home credit or HCSTC, yet there are decreasing options for them within the subprime market.

In 2019 the combined value of both HCSTC and home credit lending in the UK was £1.5bn, by 2022 this had reduced to under £0.5 bn. A £1bn+ decrease.

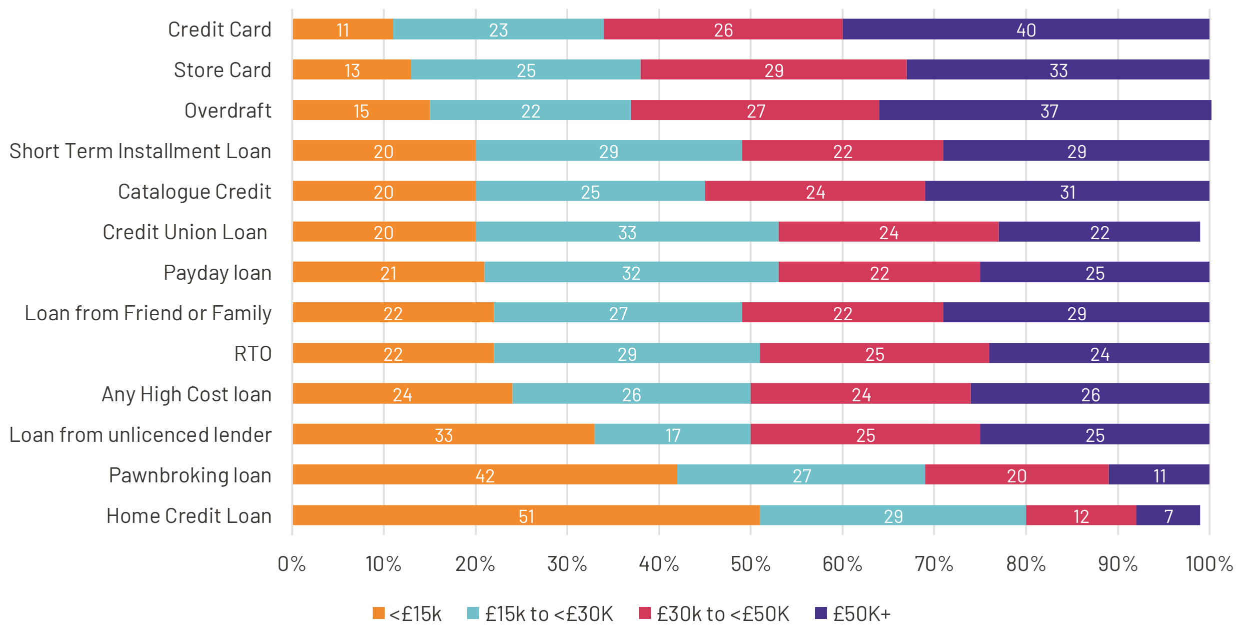
A study of the borrower using home credit in 2020 undertaken by PwC found that **only 16% had an income more than £18,000, the FCA Financial Lives 2020 survey found that home credit was the domain of renters (70%) and lower income households under £15,000 (51%).**[23] Alongside pawnbrokers and rent to own lenders these were by far the choices of low income, renting households.

Figure 5: Loan types by tenure[24]



[21] Vanquis Banking Group, formerly known as Provident Financial Group
[22] Financial Conduct Authority PSD006 (Product Sales Data) Information supplied to Fair4All Finance
[23] Financial Conduct Authority (FCA), 'Relending in the high cost credit market report, 2020
[24] Extrapolated from FCA FLS2020 Product Holding Annex

Figure 6: Loan types by income[25]



Provident's withdrawal and those of other large lenders has **decimated the home credit market that the FCA reported advanced £1.4bn in 2012[26]. By 2022 this figure was under £200m and falling**. Since the FCA Financial Lives 2020 survey Provident Financial Group (PFG) has exited the market completely, issuing no new home credit on the doorstep since May 2021.

Home Collected Credit is thought by many to be in retreat. No new entrants have been approved in the past three years. Separately, a less referenced high-cost product overwhelmingly used by lower income households in the 'Rent to Own' market has also largely disappeared. The leading 'rent to own' suppliers of BrightHouse and Perfect Home have both entered administration in recent years. At their peak in 2016 Rent to Own firms in GB had over £600million in originations and BrightHouse alone reported over 250,000 customers[27].

Credit union lending in Great Britain – often cited as the alternative for lower income households – rose between 2013 and 2022 from £640m to £1.3bn.[28] CDFI lending also doubled to £46m in the same period. The rise in credit union lending is significant but not enough to fill the displacement gap caused by the loss of credit availability elsewhere.

GB Credit Union loan values increased by £300m (to £1.3bn) in the last three years, but only a portion of this will be made up of loans to the same lower income households.

With fewer choices the lowest income households have ongoing demand and very limited supply.

[25] Extrapolated from FCA FLS2020 Product Holding Annex
[26] Financial Conduct Authority, High Cost Credit Review Technical Annex 1: CRA data analysis of UK Personal Debt (2017)
[27] BrightHouse annual reports and FCA High Cost Credit Review Technical annex 1 (2017)
[28] Bank of England, Credit union quarterly statistics – 2022 Q3

Alongside this shift in credit supply there has been other related developments that add further concerns, including a decrease in Department for Work and Pensions (DWP) no interest budgeting loan advances from £455m in 2012/13 to £303m in 2022[29] and an explosion of (still unregulated) BNPL borrowing, where the poorest owe the largest proportion of their monthly repayments often on multiple purchases.

Over the past decade, the FCA has clamped down on poor practices in credit card and overdraft lending ensuring people with persistent credit card debt, or who regularly used unauthorised overdrafts, cannot continue to access these products.

Recently, the FCA highlighted the near £1bn saving made by all consumers because of their changes in the overdraft market.[30] Many of the borrowers now unable to access the benefits of overdrafts are also locked out of forms of high-cost credit, but their needs have not reduced.

Brian Corr, Interim Director of Retail Lending at the FCA noted in March 2022 that: 'There is a lot less capacity to lend in the market now than there was a few years ago, and our analysis suggests that there will be limited supply of credit in future to consumers at the highest risk end of the market. That is in large part because there has been far too much unaffordable lending, causing direct and significant harm to borrowers.'[31]

Given these trends it is unlikely that the illegal lending market will diminish any time soon. It is against this backdrop that We Fight Fraud were commissioned to research the lived experience of people who are borrowing from illegal moneylenders and to speak to those who lend.

[29] https://www.gov.uk/government/publications/social-fund-account-2021-to-2022/social-fund-account-2021-to-2022 f
[30] Financial Conduct Authority (FCA), 'Millions of customers together save nearly 1bn due to overdraft rule changes
[31] Financial Conduct Authority (FCA), Supporting consumers through tough times – priorities for credit regulation

Who is borrowing from illegal moneylenders?

Our participants

Between June and December 2022, at the emergence of the current cost of living crisis in the UK, **287 people who have borrowed from illegal lenders told We Fight Fraud's researchers about their experiences.**

The research team also **interviewed eight illegal lenders** to gain insight into who they lend to, why they lend money this way, and any recent changes they have observed within the illegal lending market.

Participants were drawn from four different case study areas across Great Britain - South London, Preston, Port Talbot and Glasgow. They are not a representative sample. They have specific experience of borrowing money from people that they knew to be, or now believe to be, operating illegally.

A qualifying question used was:

'Have you borrowed money from a doorstep lender/loan shark/payday loan/friend or family member (that charged you interest on the loan) OR been a member of a Pardner scheme or money club in the last three years?'

This allowed us a larger sample size to draw from which was then reduced if the survey respondent on closer scrutiny was believed to be using legal payday and/or legal doorstep collection.

Where researchers teased out information that the doorstep agent may be parallel lending (for example, running a book alongside a legal book or continuing a collection round from a non-operational company) they were then included. Where the company was operational and legal the participant was not included.

Therefore, **all respondents either have engaged with illegal moneylenders in the past, or report that they are still currently borrowing money from illegal lenders – even if sometimes they had not realised that their lender was operating illegally – most notably seen in parallel lending activity**. We have categorised these as two distinct types of respondents.

1 **'Client'** - someone actively borrowing from illegal lenders in the data collection period (47 people, 21%)

2 **'At risk'** - someone with previous but not current experience with illegal lending, with a potential susceptibility to return to illegal borrowing (177 people, 79%)

This is to demonstrate the subtle but important differences between those currently actively borrowing from illegal lenders, and those that have done so within that last three years.

No inference is implied that these groups are representative of illegal borrowers more generally. However, their insights when seen collectively add information and understanding to the experiences of both borrowers and lenders.

Conclusions drawn from what participants told researchers are grouped together into either narrative, or responses are sometimes tabulated as a whole, where they will be described as participants, or in separate 'client' and 'at risk' groups to show the distinctions we found between these groups.

We report their collective responses to questions to provide a better sense of shared characteristics or views.

The data produced by the survey broadly structures the analysis and data presentation that will follow in the sections below. However, a thematic analysis of the experiences presented in the rich qualitative data has directed the grouping of the data presentation from the survey results. This brings together the data, survey, and narrative, to show the most important themes that emerged out of this research:

- Credit exclusion
- Digital exclusion
- Vulnerability
- The harms of illegal money lending
- The 'cost of living' crisis and its potential consequences

Who are the 'at risk' borrowers?

79% of the overall sample are 'at risk' of borrowing

60% male

94% British

55% Aged between 30 - 49

52% no financial dependants

Those 'at risk' of borrowing represent 79% of the overall sample. Those that borrow from illegal lenders are slightly more likely to be male (60%), white British (94%), aged between 30 to 49 years old (55%), with no financial dependants (52%).

Those at risk are more likely a tenant (59%) living in an area of social housing (43%). Those 'at risk' are more likely to have experienced direct harms (46%) related to illegal money lending than the client group (38%). However, there are very low levels of reporting (less than 7% are reported).

Employment and welfare benefits

Over half (52%) of all those at risk of illegal moneylending are employed either full (48%) or part time (4%). This is a lower percentage than current clients of illegal lenders. The at risk demographic has a greater percentage of people unable to work due to health issues (30%), jobseekers (10%) and stay at home parents (5%).

Just under half of all those considered at risk (49%) fell in to the low-pay category of under £19,999 annually. The client group has a greater percentage of people earning average or high-pay wages. This is due to, in part, to the greater reliance upon welfare benefits by those at risk compared to the client group. With 49% claiming some sort of welfare benefit, compared to 37% of the client group.

Debt and spending

67% of those at risk have been refused credit in the last three years. This is lower than the client group. However, this figure **may be lower than the client group due to self-exclusion** through not applying for formal mainstream credit. The 'at risk' group had a more equal spread across the total debt categories, but overall the level of debt is generally under £3,000 (57%). As shown in the figure below, both those at risk and current clients utilised Buy Now, Pay Later (BNPL) services at similar rates.

Both the 'at risk' and client groups also faced similar levels of financial digital exclusion, with **just under 25% of both groups not using any online financial services.** The 'at risk' group would prefer to deal with financial matters face to face rather than over the phone or online.

'At risk' respondents told us that 25% of them only borrowed from an illegal lender once. With 38% borrowing from illegal lenders five or more times. This is much lower than the client group where 54% of clients had borrowed from illegal lenders five times or more.

Who are the current clients of illegal lending?

Current clients of illegal lenders represent 21% of the study sample. They can be either male (50%) or female (48%, with a 2% deviation for non-binary participants), White British (92%), have one or more financial dependant (62%), and be aged between 22 to 49 years old (75%).

Clients are also most likely going to be a tenant (65%), but a greater percentage of clients are living in private rented accommodation (28%) than those at risk. Therefore, they may move residence more often due to short-term tenancies, or credit exclusion may inhibit their mobility due to landlord credit checks.

England had the highest percentage of clients within this sample (25%), with Scotland much less (11%) and Wales less again (9%).

Employment and welfare benefits

Current clients are more likely to be employed (69%) on either a full (60%) or part time (10%) basis.

Because the percentage of people in employment is higher in the client group, the number of those claiming welfare benefits is much lower (37%).

Of those that do receive some welfare benefits, only 14% received these as their only form of income. Therefore, the client group has higher percentages of those working and receiving top up benefits.

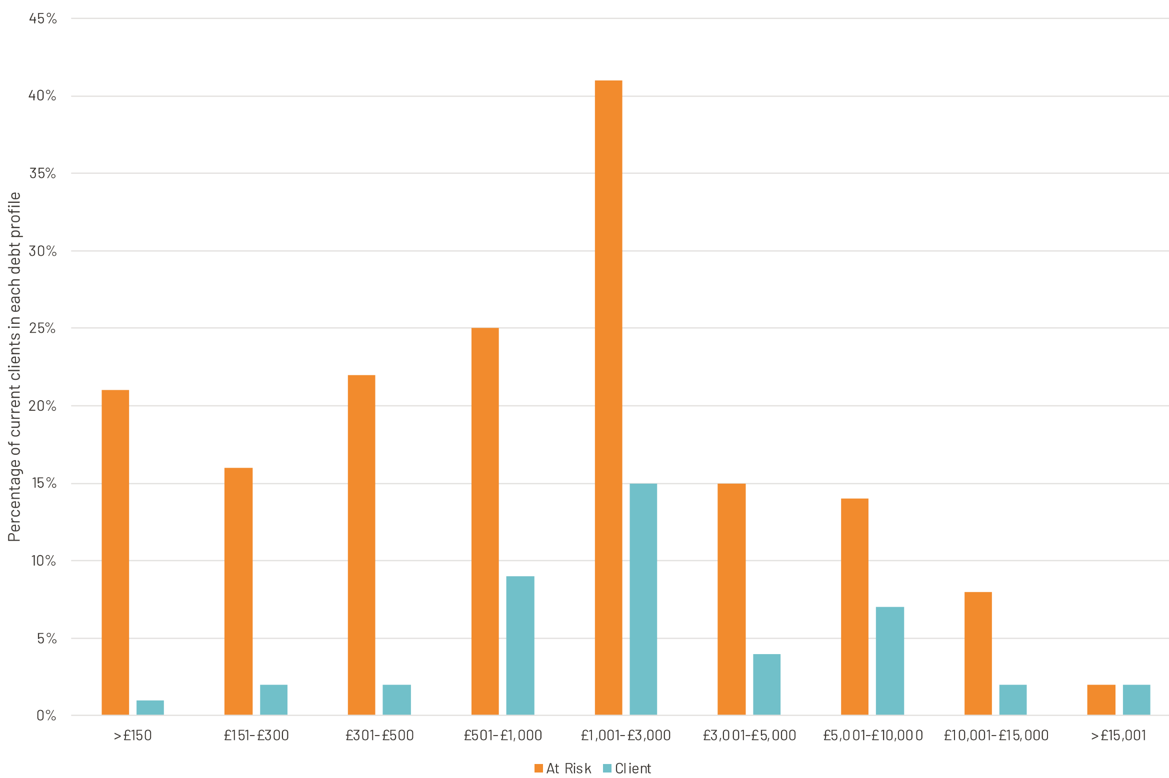
These top up benefits may also relate to clients being more likely to have financial dependants, such as children, that will be taken into any welfare benefit calculation, but will also act as a demand on their finances.

Debt and spending

Current clients of illegal moneylenders make up a similar debt profile to those in the sample that have been refused credit, with 56% of the participants having between £3,000 to £15,000 worth of estimated total debt (refused credit had 56% in the same total debt categories).

Current clients were generally in higher levels of total estimated debt than the at risk group.

Figure 7: Amounts borrowed from illegal money lenders by 'at risk' category and 'client'



The table above demonstrates the amounts borrowed by current clients in comparison to those who are 'at risk'. **The data indicates that those currently borrowing from illegal lenders (clients) are borrowing often between £500 to £3,000, whereas the at risk group were often only borrowing less than £1,000**.

This may in part be due to the changing demographic of clients as more of the client group are employed and in higher pay jobs.

This can also point to less of the current client group being people in vulnerable circumstances who have addictions as the typical amount borrowed in that case is less than £50. This would indicate that people in vulnerable circumstances with addictions only account for around 3% of the current client base.

Current clients much prefer being able to borrow from a lender online (67%) than those that are considered at risk (45%). This may be less to do with digital exclusion, as both the 'at risk' and client group use online banking in similar ways, but the average age of the client group is slightly younger, and older participants prefer to engage less online and more face to face.

Clients are using digital means of repayment (68%) such as bank transfers and standing orders much more now that those at risk have done in the past (54%). This, coupled with greater desire to deal with financial matters online within the client group, may be indicative that more illegal moneylending is taking place online.

People with vulnerabilities

The 'Vulnerability' section offers a fuller exploration of vulnerability within this study, including definitions and how vulnerability has been defined within this study.

To compile a sample of the most vulnerable within this study we have cross-examined addictions with housing status to bring together a picture that contextualises vulnerability and its relationship with illegal moneylending.

There were very few homeless participants, with only 4% of the overall sample identifying as homeless. 71% of the small sample of homeless participants were found in Wales, with the remaining 29% in England. Just 14% of those that are homeless are current clients, 57% of homeless had less than £1,000 total debt.

14% of all homeless respondents had been refused credit in the last three years. Homelessness is a barrier to applying for credit, so the low figure of credit rejections may be more to do with self-exclusion or inability to provide a fixed address.

Homeless participants were the most digitally excluded group, with 57% of respondents not accessing any online banking platforms and 71% not engaging in any BNPL services, all of which are usually linked to purchasing online. 57% of homeless participants said they would prefer to borrow money face to face with someone they already know. **None of the homeless participants wanted to borrow money online.**

43% of those homeless used the money borrowed to buy drugs or alcohol, but more of the group (86%) said they also used the funds to pay for day-to-day living expenses such as food. **For the homeless in this study, borrowing from illegal lenders was used much more as a method of survival rather than to feed addictive behaviours, like may be more commonly assumed**.

15% of homeless respondents also worked part-time, challenging ideas that all homeless engaging with illegal lenders are societal dropouts who find themselves in financial need due to addictions or poor work ethic.

One in every 200 people in the UK are homeless, with 55% of those living in temporary accommodation[32]. The maximum total household income for homeless participants was £24,999 a year, which primarily consisted of welfare and disability or illness benefits.

Who are the illegal lenders?

Our expectation within this research was to be able to paint a vivid picture of a typical illegal lender so that they may become more visible and understood. However, whilst conducting the research we found that illegal lenders, both those that we interviewed, spent time with, and through client descriptions, come from all different backgrounds.

[32] EachOther, 'I have a job but I'm homeless: The working poor who can't afford to rent, 8 November 2019

Illegal moneylenders were businessmen, religious leaders, working men and women, and most surprisingly, other consumers. Most Illegal lenders had fairly prominent positions within their communities.

They were well known, and nearly all the borrowers we interviewed said they knew of more than one in their local community and where they would be able to find them if they needed to borrow money from them.

Illegal moneylenders predominantly had **strong links to 'legitimate' cash-based businesses within the local area, such as local café, beauty salons, sunbeds, or pubs among others. These businesses were known to the borrowers and would often be the spaces within which the illegal lenders clients would conduct the transaction**.

It was only when a lender was a parallel lender or had been a parallel lender but the legitimate firm ceased trading, did the transactions occur on the individual's doorstep. These **'parallel' lenders appeared to thrive in certain areas, such as South Wales, where many of their clients still believed them to be part of legitimate, often historically well known, businesses** that have ceased home doorstep collection.

Whilst the illegal lenders we encountered did not reflect the intimidating, 'shark toothed', criminal image one may normally imagine when we picture an illegal lender, there were some lenders described by their clients as such.

These were the lenders that were also linked to other crimes, such as drug dealing (either themselves or are related to drug dealing through family ties or association). It was these lenders that were engaged more explicitly in criminal activities that related to drugs, fraud, and money laundering.

The insight into illegal lenders shows us that there is not one stereotypical sort of illegal lender. However, there appears to be a divide between those illegal lenders that are just engaged in lending money as a side-line to an established legitimate business or otherwise legitimate lifestyle, and those who engage in other criminal activity potentially as part of organised crime.

The client profiles considered in this section give us an understanding into the risk factors that can lead people to be clients of illegal money lending. They also give us an overall insight into how engagement with illegal moneylenders has been evolving in recent years.

The at risk group represents a picture of moneylending during the last three years, but not necessarily during the data collection period in 2022. The client group were actively borrowing form illegal lenders during this time period, so when we consider the differences between profiles, we can see the subtle changes that have occurred as we have begun to enter the current cost of living crisis.

Our data suggests that the demographics are beginning to shift, around who illegal moneylending affects, as more people in full time work are engaging in borrowing from illegal lenders.

Credit exclusion through credit refusal plays a significant role in people becoming clients of illegal lenders. As credit refusal does not eliminate the need for often short-term, low financial value (under £1,000) credit.

A third of clients currently borrowing took a sum under £1,000, two thirds took a sum under £3,000. Therefore, borrowers look to other places to obtain credit, including buy now, pay later (BNPL), but increasingly they perceive their only option is an illegal moneylender.

Credit exclusion

Credit exclusion is a contemporary development of the term financial exclusion. Earlier discussions of financial exclusion primarily focused on geographical issues, [33] and later discussions broadened out to include the characteristics of those who are financially excluded and the process by which they become financially excluded[34].

The 1997 Blair Government is widely credited with introducing the term financial exclusion via their Policy Action Team 14 report for HM Treasury 'Accessing Financial Services'. Financial exclusion became a key area of interest for social scientists and campaigners in the run up to the 2008 financial crash and was defined by:

- **Physical exclusion** caused by the problems of travelling to services
- **Access exclusion** caused by processes of risk assessment (usually via credit referencing agencies)
- **Condition exclusion** when the conditions attached to products are unsuitable or unacceptable to borrowers
- **Price exclusion** where the price of products is unaffordable
- **Marketing exclusion** where certain borrowers are unaware of products due to marketing strategies that target others
- **Self exclusion** when people decide to exclude themselves voluntarily on the basis of past rejections or fear that they would be rejected.[35]

This increased attention to issues of financial exclusion led to the UK government identifying three main areas of action to combat financial exclusion: **increased access to banking; increased availability of affordable credit and increased supply of face to face money advice**[36]

However, after the 2008 financial crash, and the subsequent rise in digital financial services (driven by the increased and normalised use of mobile phone application meant that efforts to create more inclusive forms of financial services focused upon increasing digital literacy to access financial services online rather than on the high street (physical exclusion resolved by the digital) and support and advocacy

[33] Geographies of financial exclusion: financial abandonment in Britain and the United States, Leyshon, A. and Thriftn N. 1995
[34] Understanding and combating financial exclusion. Insurance Trends (The Association of British Insurers), Kempson, E. and Whyley, C. 1999
[35] Towards an ecology of retail financial services: Understanding door-to-door credit and insurance providers, Leyshon, A. 2004
[36] HM Treasury 'Promoting financial inclusion', 2004

services requiring money advice services.

It is during this period, **2004, that the first Illegal Money Lending Team (IMLT) was set up**. By 2016, the Government legislated to introduce an industry levy to fund the activity of the IMLT to take action against illegal lending.

This is around the time that the discussion moves away from focusing on financial exclusion, towards financial Inclusion. Partly driven by inclusivity requirements such as the EU Payments Accounts Directive[37], efforts by the UK Financial Inclusion Commission, and a report by the Financial Inclusion Commission[38] in 2015 led to greater access to bank accounts and reduction in charges related to running bank accounts.

As greater access to financial services quelled the concerns about financial exclusion, more recently the issue of credit exclusion has re-emerged as a key issue. Credit exclusion focuses upon two predominant aspects of financial exclusion: Access exclusion, by failing a credit reference check; or self-exclusion, by assuming a credit check would not be successful so not applying for credit even when needed.

In 2021, You Gov reported that **'12% of consumers had been denied an application for a financial product in the past three years'**.[39] A report by Royal London showed that a fifth of all those who applied for the most common financial products were refused by providers in 2020, with almost half of those who were refused mainstream lending in 2020 had never been denied before.[40]

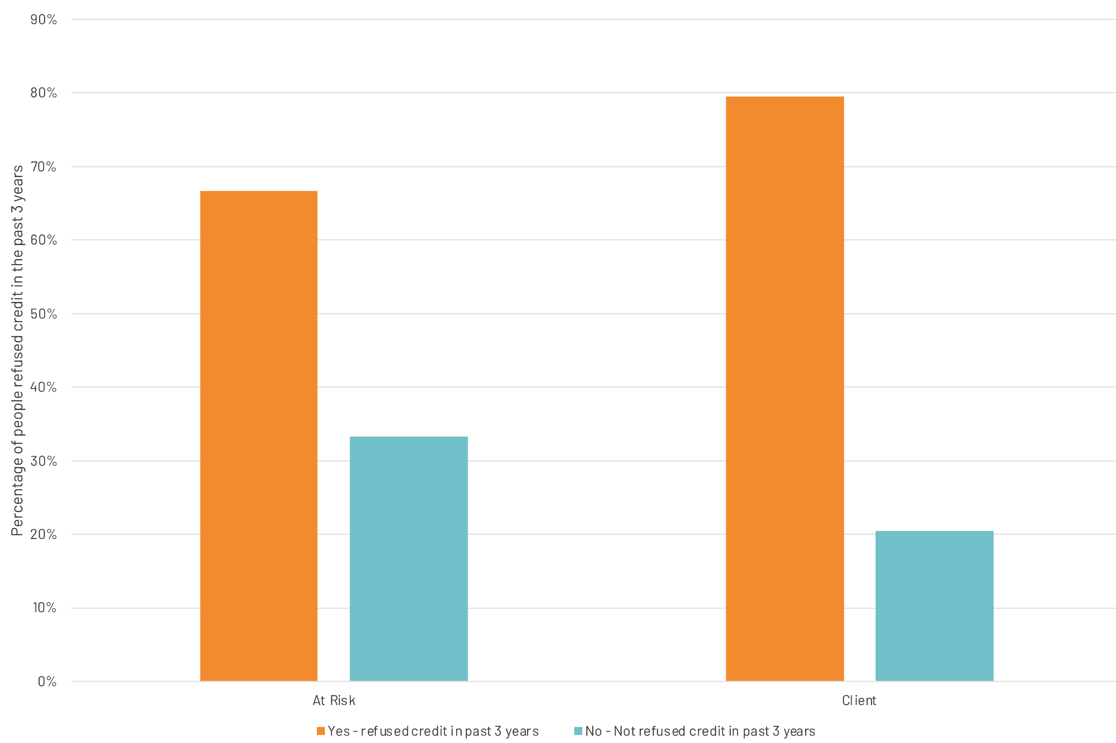
The FCA Financial Lives report in 2020 identified 'Between March and October 2020, 10% of UK adults were declined a credit product. Another one in ten (11%) applied (and were either successful or had not been declined by the time of interview), and 79% did not apply'. The inference here is that almost half of those applying for credit were refused.

As we can see from the figure below, those who have or are currently engaged in borrowing from illegal money lenders have much higher rates of credit refusal within mainstream financial services. Almost four in five of all participants said they had been refused credit in past three years.

Credit refusals can discourage borrowers from pursuing legitimate forms of credit[41] and can force them in to the ever decreasing subprime market or ultimately to illegal lenders that do not use credit reference checks.

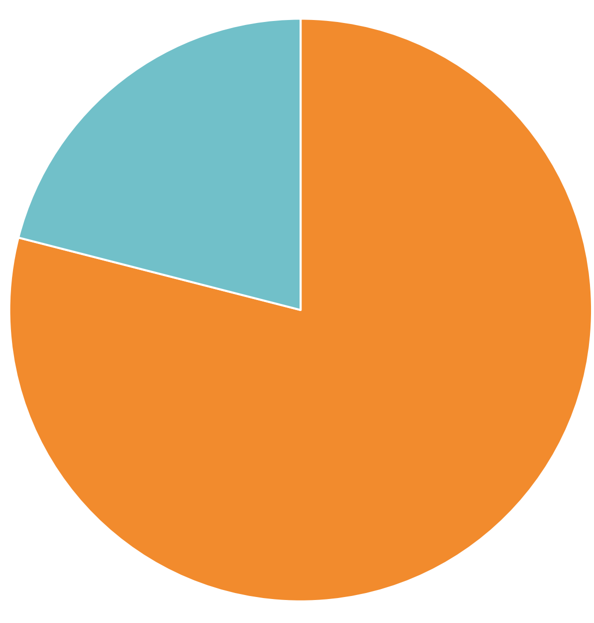
[37] Directive 2014/92/EU of the European Parliament and of the Council of 23 July 2014 on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features Text with EEA relevance
[38] Financial Inclusion Commission
[39] YouGov, 'Which Britons have been refused credit?', February 2021
[40] https://www.royallondon.com/about-us/media/media-centre/press-releases/archive/ or 'Credit refusals hampered access to basic financial products during Covid, study finds', Independent Online, Tuesday 29 December 2020
[41] Cowling, M and Sclip, A – Dynamic Discouraged Borrowers, October 2022

Figure 8: Number of people who have been refused credit in the past 3 years (P3Y) - responses from both 'at risk' and 'client'



'Current clients had the highest rates of credit refusal with 80% having been refused credit in the last three years.

Figure 9: Number of people who responded that they have been refused credit in past 3 year – response percentages from 'at risk' and 'client'



The current clients who were interviewed that had not been refused credit explained that even though they hadn't been actively refused credit in the last three years, they hadn't bothered to apply.

> 'Because **I knew the bank wouldn't give me one**...Because I am what you class as a poor person.'
>
> Client, Preston

Others who had borrowed money in the past but had negative experiences with legitimate lenders now self-excluded by not applying for credit. Rather they handed over financial control to their partner.

> '**I don't apply for credit anymore... my wife takes care of all of the monetary stuff**, but I mean we have got catalogues and stuff now, we check them before because I am sort of repaying the credit I have got.'
>
> Client, London

Some interview participants pointed to **feelings of financial services such as loans and credit cards as simply 'not for them', with a perception that the 'bank', often shorthand for all financial credit services, would simply never lend to 'the likes of them'**.

This form of credit self-exclusion was a key attribute of people who had engaged with illegal lenders. Other forms of social exclusion, real or imagined, that stem from the participants' relationship to poverty and class influenced their perception of their own creditworthiness so negatively that they simply never tried to apply for credit from mainstream, legal, financial services.

> 'I have never really thought about a bank loan, I suppose these are just convenience really, **they (illegal moneylenders) just say yes straight away and then you haven't got to worry about employment status or you're on benefits**, they don't care as long as they are getting their money, they don't care what money you have got really do they?'
>
> Client, London

Other forms of financial self-exclusion came from the notion that once refused credit, or if never offered credit, then they would never be able to get any form of credit in the future.

> 'You would get blacklisted, and you know if they did a background check on you, this thing would come up oh yes they have got a default on this blah, blah, blah.'
>
> Client, Port Talbot

Clients of illegal lenders often discussed being 'blacklisted', with some suggesting it was the house they lived in that had been blacklisted due to previous partners, or even unrelated tenants, so they had never tried to gain credit in their own name.

‘**They won’t even give me an overdraft. I have been with them for like… years…** back when they were Abbey National, so I am like 54 and it used to be called Abbey National. They have never given me nothing they ain’t and I have got nearly £1500 a month going in there, they still won’t even give me anything.’

Client, London

Others, like the participant above, talked about how they had been refused credit many years previously, and yet their loyalty to their bank had not positively impacted their credit profile. Leyshon et al., (2006) describe how door to door moneylenders, such as Provident, used systems similar to ‘a relic financial distribution system that first developed during the 19th century when the financial services industry began to attempt to sell products to the working classes within industrial regions’.

This allowed the lenders to build up knowledge about their client’s trustworthiness when it came to repaying their loans, as well as what time or day is best to collect with the most success. As such, the interaction between lender and client actively allowed trust to grow, and the amount that could be borrowed would increase. This is comparable to most door to door collection agents who (legally) lend money.

However, as these services have decreased, by over 80% in both volume and value in the past decade (see figure 9 below[42]) lenders agents have either carried on lending to the same clients (now illegally) in what can be considered ‘parallel’ style lending.

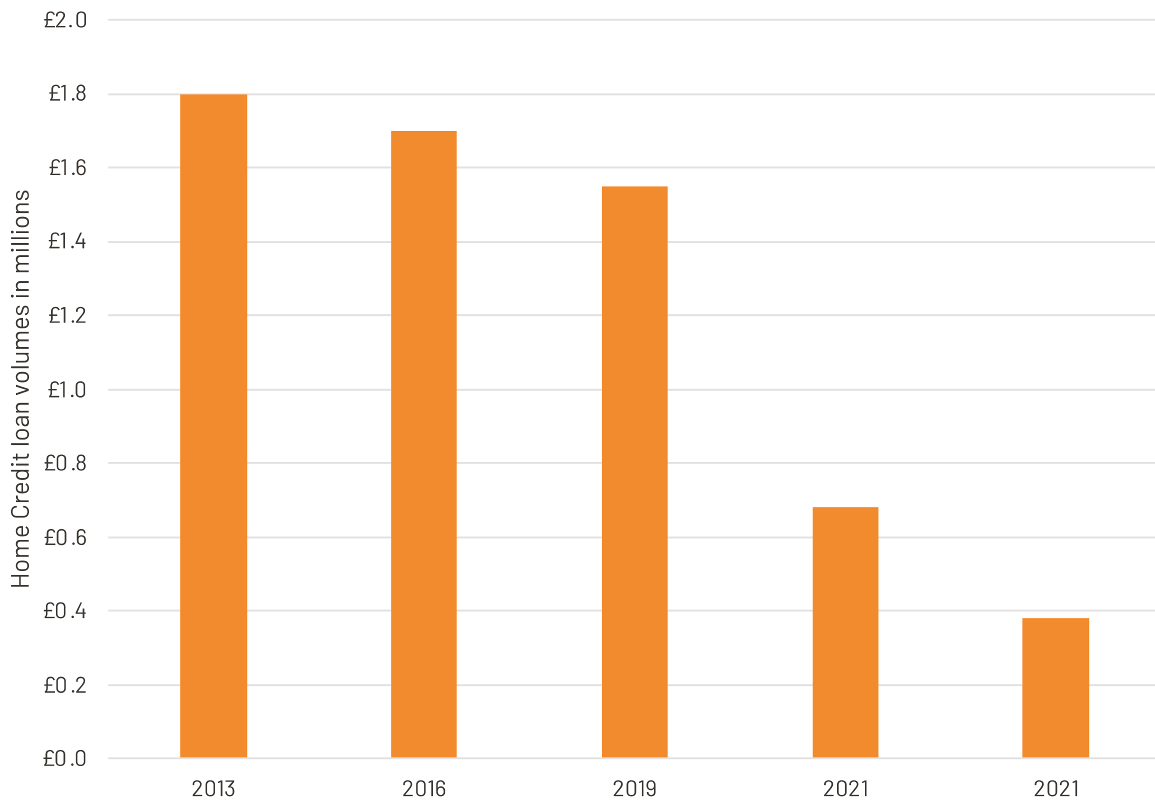
Often the borrower was unaware that the agent was unregistered and the company they claimed to work for was no longer engaged in home collected credit activity.

‘So, like my last loan I cleared, and they messaged me ‘you can take another loan within a day’ because of interest. I’ve done it just to help me get on my feet and the interest is a killer because you’re paying near enough double that.’

Client, London

[42] Financial Conduct Authority (July 2017) and Financial Conduct Authority PSD006 (Product Sales Data) Information supplied to Fair4All Finance

Figure 10: Home Credit loans (UK) by volume (UK) selected years 2013 - 2022



This participant described how when she managed to clear a loan with an illegal lender, they texted her to offer her another 'within a day'. She ended up taking the loan to try and manage her finances but explained how it was a slippery slope into more debt. The lender she used was previously a door to door collection agent she had used before Covid-19 for a legitimate company.

After the first lockdown he came back, but offered loans using paper records, where previously there had been online accounts. After a while she realised he had just set up on his own parallel activity. When asked if she viewed him as a loan shark, she replied 'No, he's just the money man'.

Not all illegal lenders used a trust building system to ensure they get paid. The lenders that reported using violence or other measures to ensure they got their money back plus interest took a different approach to minimising the risk of lending money.

'**You only had to really find out where they actually lived, what the registration number of the car was, where their mum lived, what school the kids went to and you could lend them**. They didn't need to, you know, you actually knew that most of them couldn't pay you back.'

Lender, London

Knowing that most of their clients could never pay the terms of the agreement back was not a deterrent. In fact, it was generally part of the illegal lender's strategy to earn as much from each loan as possible by adding interest and other charges.

'Most people only wanna borrow what you would consider a small amount, but to them, because they've got nothing, it's a large amount. You know, 500 quid to someone who's got eff all, it's the same as 50 grand to me. You know what I mean?

Yeah, **so I wouldn't say 'I'll lend you 100 quid first and if you pay that back I'll lend you 200 quid'. It doesn't go that way. You give them what they want, and you just have a little look around and if worst comes to the worst, you're taking his car, his telly, his watch, his kids' PlayStation, his fridge**.

You get that money back if worse comes to the worst; and they normally-- by the time they fall into money trouble they've normally paid you the right money back anyway, and they fall into trouble normally on the second load. You know when you're pulling double what you lent.'

Lender, London

The interest and charges were so high, that on balance, the illegal lenders would not expect a loan to be paid off but would **take the chance that they would have their original loan paid back, plus a profit before the client defaulted or moved away.**

Therefore, a defaulted second or future loan with nil recovery was a loss that was borne, as profit from the first or earlier loans had covered the principal lent that was not recovered.

However, there are still risk calculations being made. When one lender was asked if there was anyone they wouldn't lend to, they replied:

'I hate to say this but there's a lot of foreigners that are a bit nomad-y, that quite happily would-- You know you can look at them and find out what's what, where he works and whatever but for the sake of something like five grand, you go back and the bedsit that they had is empty. The car that he had was rental, and he never had a job anyway. And how the (...), where would you find this Albanian?'

Lender, London

Illegal moneylenders, particularly those that have been lending money within their community over long periods of time (the longest serving illegal lender in this study had been lending money in London for over 35 years) would become well known within their community and rely upon the settled nature of the local community to ensure they got their money back.

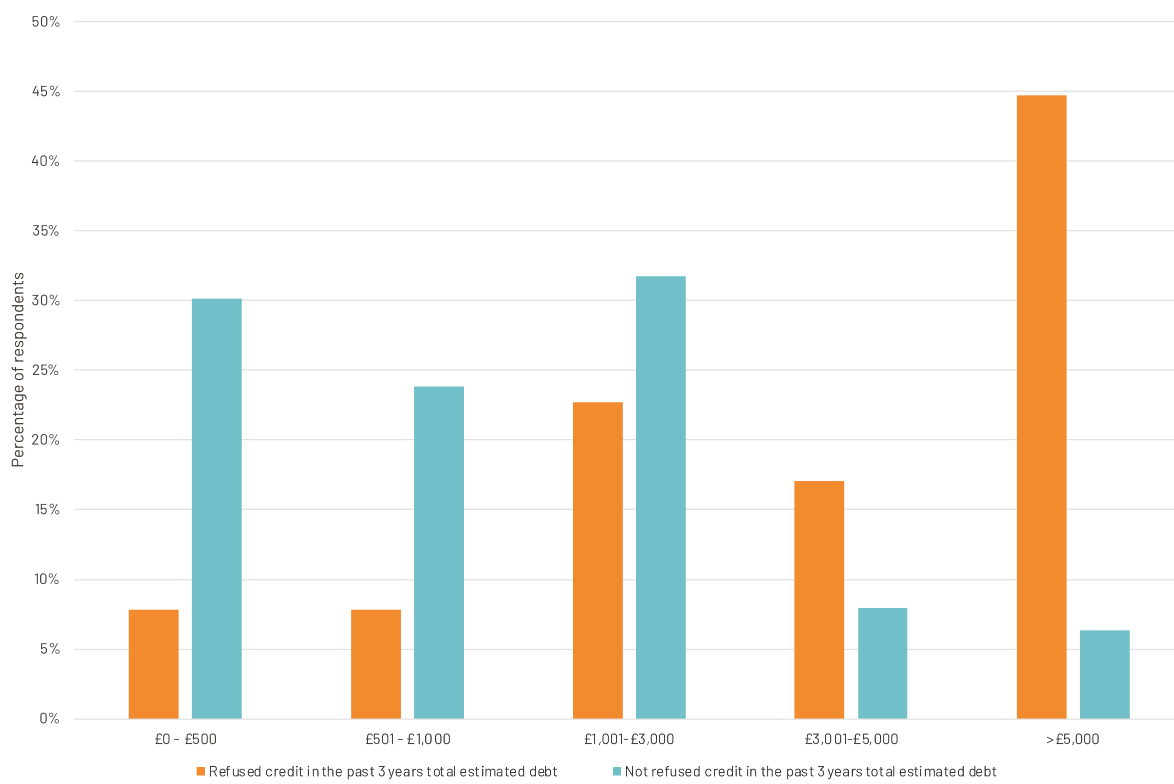
This form of risk calculation that differs so drastically from the process of mainstream lenders means that for this who are excluded from credit as a result of a poor or thin credit file, or self-excluded through their own self perception of possessing a poor credit score, are **more able to borrow money from an illegal** lender as they can build their repayment trustworthiness over a shorter period of time than they can repair their formal credit record. In that sense it is logical for the borrower**. A solution to their problem is met, they build trust, they can borrow again.

What level of debt do borrowers have with illegal lenders?

Despite the participants in this study showing credit refusals much higher than the UK wide rate of credit refusals, all the participants still have some sort of remaining debt. **None of the participants reported themselves as completely debt free**.

Even participants that had discussed taking out IVAs (England and Wales) or Protected Trust Deeds (PTDs) in Scotland or declaring themselves bankrupt (5 interview participants) had gone on to accrue more debt with both mainstream and illegal lenders.

Figure 11: Self reported levels of total estimated debt from all participants



As our data shows above. Those who were refused credit held larger total amounts of debt, with two thirds having over £3,000 of debt worth of total debt, within which nearly half (45%) had over £5,000 of debt. Over half (54%) of those not refused credit had self-reported as holding under £1,000 of debt.

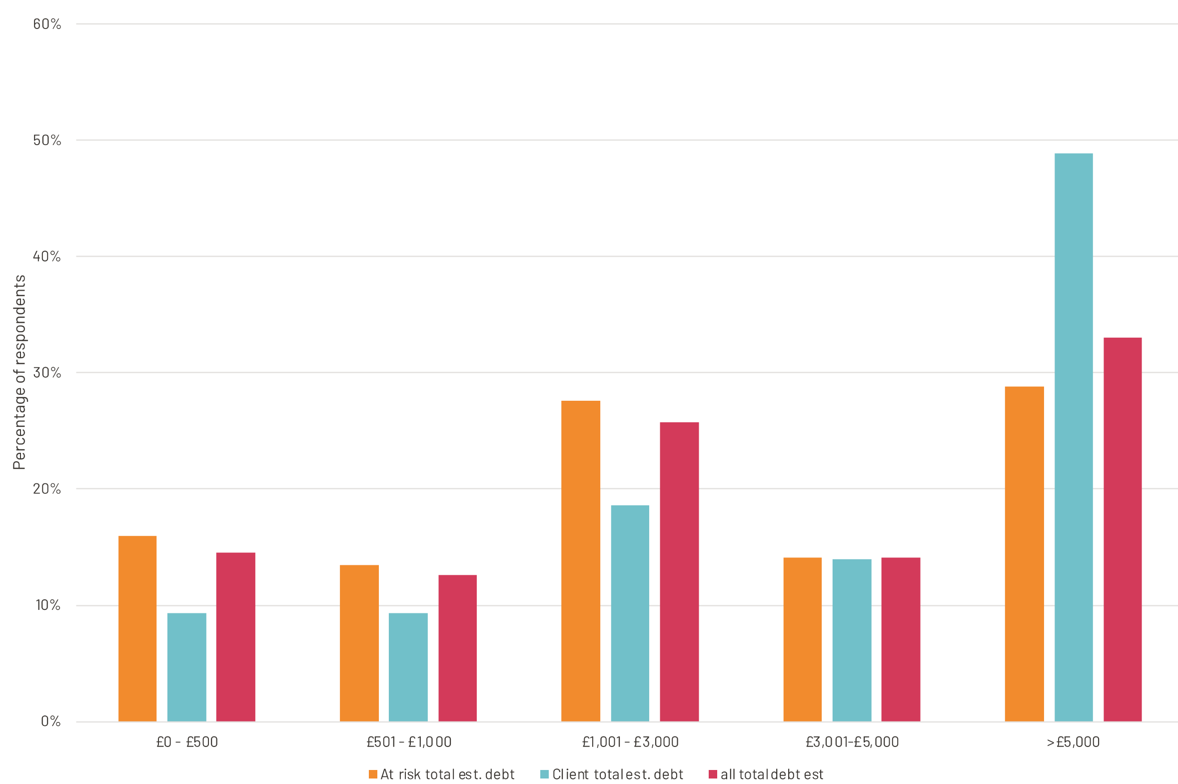
Whilst this data cannot prove a causal link between credit refusal and illegal moneylending, because we do not have access to the clients' credit reports and formal timelines of their money borrowing behaviour, we cannot ascertain if the high level of debt became unmanageable for the participant so they defaulted on loans and began to be refused credit, or if the high level of debt is because many of the participants who were using illegal lenders, were also borrowing from both mainstream lenders at the same time and more than one illegal lender.

The 2007 'Money-lending and Financial Exclusion' study[43] highlighted that 'financial exclusion' was considered as only using illegal lenders, whereas 65% of respondents in their study in Ireland were borrowing from multiple sources, including legal and illegal lenders.

As our data shows above. Those who were refused credit held larger total amounts of debt, with two thirds having over £3,000 of debt worth of total debt, within which nearly half (45%) had over £5,000 of debt. Over half (54%) of those not refused credit had self-reported as holding under £1,000 of debt.

If we visualise the same estimated total debt data, but this time examine it within our analytical categories of 'at risk' and 'client' we can see that current clients of illegal money lenders make up a similar debt profile to the refused credit group, **with 49% of the participants having over £5,000 worth of estimated total debt (refused credit also had 45% in the same total debt categories).** The 'at risk' group had a more equal spread across the total debt categories, with only 30% reporting debts £1,000 or below compared with 54% of those not refused credit.

Figure 12: Total estimated debt for 'at risk' and 'client'



[43] Byrne, Noreen and McCarthy, Olive and Ward, Michael, Money-Lending and Financial Exclusion. Public Money & Management, Vol. 27, No. 1, pp. 45-52, February 2007, Available at SSRN: https://ssrn.com/abstract=959521 or http://dx.doi.org/10.1111/j.1467-9302.2007.00554.x

The evidence points to layers of relational causal connections that cannot necessarily be unpicked from each other. But what we do know is:

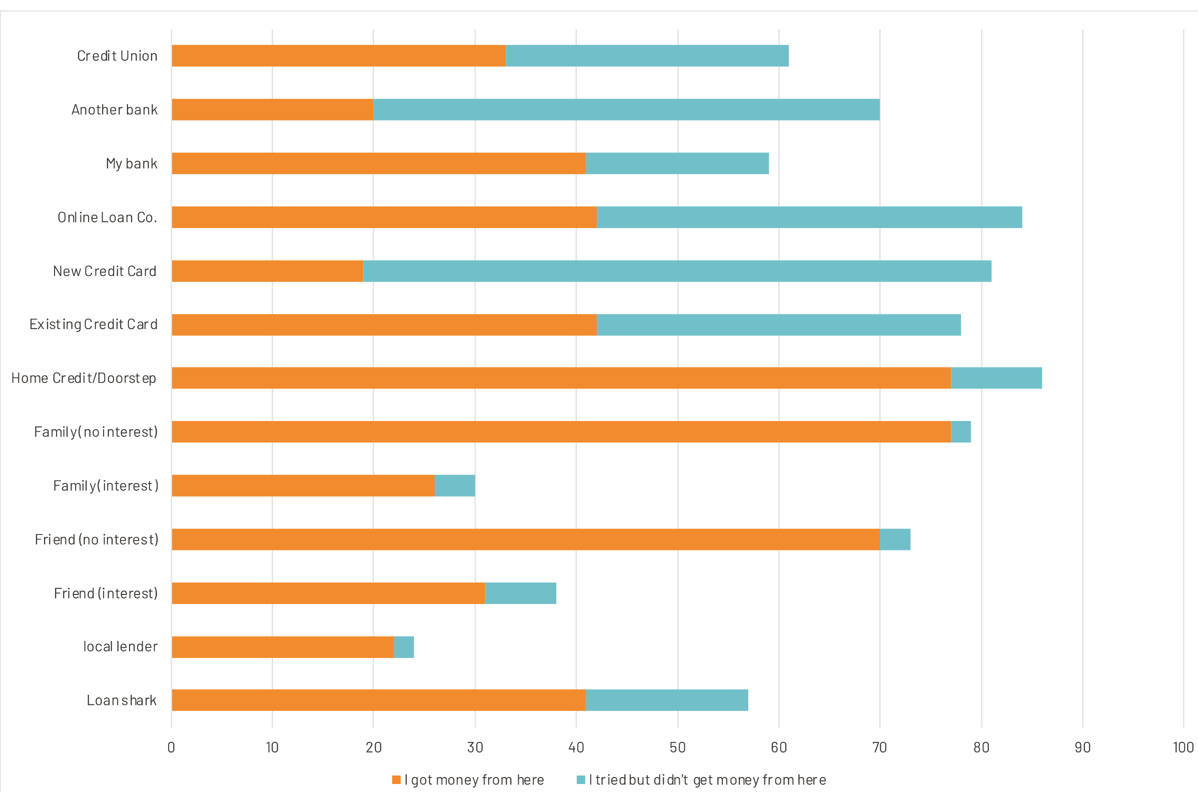
- Clients of illegal money lenders have significantly higher credit application refusals than the 12% reported by YouGov in 2021
- Those refused credit are more likely (45%) to have an estimated current total debt of over £5,000
- Clients of illegal moneylenders are also more likely (49%) to have an estimated current total debt of over £5,000

People who are 'at risk' or current clients of illegal money lenders are in some sort of debt with multiple lenders, regardless of whether they have been refused credit in the last three years or not.

Where are participants borrowing money from?

The survey data showed that although those who are current clients and those 'at risk' of borrowing money from illegal lenders are frequently refused credit, they still have sometimes significant levels of debt owing. The table below examines where the respondents regardless of the attribution type we have allocated 'at risk' or 'current' have applied for credit and if they were successful.

Figure 13: Where borrowers sought and accessed credit, in the past 3 years



By examining the visual data above, we can see that **the most commonly accepted places to borrow money were from home collected credit/doorstep lenders (77%)** and from friends (70%) and family (77%) that didn't charge them interest.

Home credit has reduced their activity to fewer than 100,000 loans per quarter, a reduction in a matter of a few years from their c400,000 per quarter in 2019 which is within the spectrum of our question.

From the in-depth interviews we know that although there are still hundreds of legitimate doorstep collection agents for legal financial service firms, many of the doorstep lenders discussed in this study fall into the category of illegal lender.

However, clients do not perceive them to be illegal because they act in ways that mirror legitimate business models that the clients have become accustomed to over many years. Provident – the largest home credit lender established in 1880 ceased all home credit lending in 2021. A decade earlier they reported 1,827,000 million home collected credit borrowers.[44]

Across housing estates and within families, the legitimacy of home collected credit was pronounced. It is reasonable to assume that many borrowers would be unaware that their agent was now – possibly – operating illegally.

A senior home credit connected official, speaking anonymously told Fair4All Finance that any former agent with experience with £10,000 to £20,000 knows the mechanics of running a book.

Respondents successfully took out loans with known loan sharks (41%) at the same rate as they managed to obtain credit from their bank (41%), online lenders (42%), and existing credit cards (42%).

The greatest volume in credit refusals came from new credit card applications (62%). However, as our evidence shows it is within mainstream finance that the credit refusals most often occur.

It is in the informal economy of borrowing from friends, doorstep lenders, loan sharks and other unregulated money lending that respondents either didn't have the option (not applicable) or self-excluded by not asking to borrow money from that individual or group, rather than being refused.

40% of respondents did not engage at all with credit union services in the past three years. None of the interview participants held credit union accounts, often citing difficulty in accessing their money as deterrents for engaging with credit union services.

However, within the survey data **33% of respondents did borrow money from the credit union, with 28% trying to borrow money from here, but being refused credit**. The British credit union sector had around 250 credit unions across England, Scotland and Wales, with an adult membership of 1,427,288 people,[45] this means that around 2% of the UK population hold credit union accounts.

This implies that people who are clients of, or at risk of, illegal moneylending are much more likely to also hold accounts or have some engagement (61%) with credit unions as either borrowers or refused

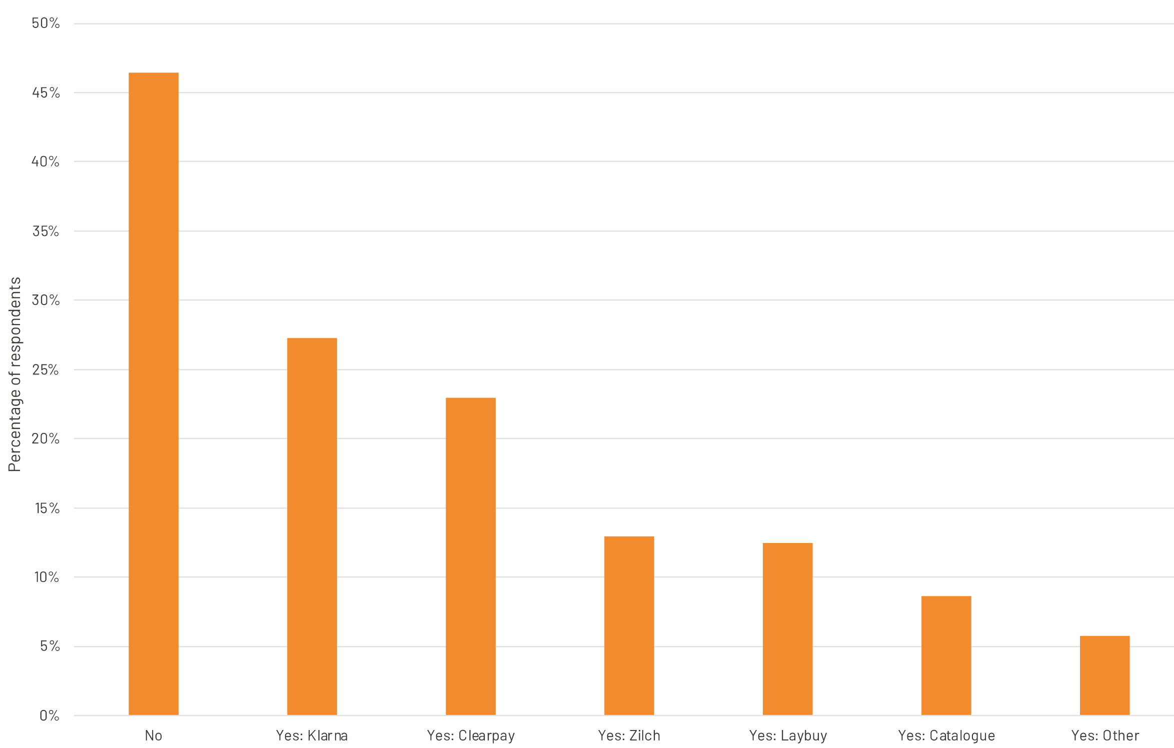
[44] PFG Annual Report 2013, customers in Consumer Credit Division (CCD)
[45] https://www.abcul.coop/credit-unions/credit-unions-facts-and-

applicants.

What alternative forms of credit to illegal money lending clients use?

To understand further how people with higher levels of credit refusal are accruing higher levels of debt than those who have not been refused credit, we looked at how people at risk and current clients of illegal lenders utilise Buy Now, Pay Later services as an alternative form of credit.

Figure 14: Use of Buy Now, Pay Later services in respondents



54% of all respondents had engaged with BNPL service providers. With 45% of those who have used BNPL services accruing debt with three or more providers.

The size of the UK BNPL market in the UK is not clear but one provider, Klarna reported to HMT that they had over 16 million customers.[46] This means that approximately 25% of the general adult population have used BNPL services.

In comparison, those at risk or current clients of illegal money lenders are more than twice as likely to have engaged with BNPL services. With just under half of those using BNPL services holding three or more accounts.

Showing that high engagement with BNPL services can, when layered with higher than average levels of

[46] Klarna Bank AB (publ) response to HM Treasury Regulation of BNPL consultation (January 2022)

credit refusals and debts of over £3,000, point to a vulnerability or potential engagement with the unregulated financial sector.

Equifax reported lower income households have higher credit commitments to BNPL that other household income types as a percentage of a (legal) money owed. **Over 30% of credit repaid by households earning under £1,500 pcm are attributable to BNPL from CRA file data in Oct 2022**.[47] This data excludes illegal moneylending repayments and friends and family repayments both of which we have identified as among the highest debt burdens.

Not all engagements with the unregulated sector are negative

In each geographical area we found informal schemes that were arranged and managed by and for the community. Part saving scheme, part credit, these money clubs had different names in different communities. In the Afro-Caribbean community in South London, the scheme is called a Pardner.

'**Well, Pardner's from when I was growing up helped the Windrush generation to get money because they weren't willing to lend money to the Black community**. Remember it was a time that no dogs, no Irish, no Blacks, so that was the quickest way for them to get money, buy a house, send money back home, and things like that so it just kind of… and whoever controlled the Pardner would take about £20 a month or a week for managing it.

And that was it, so people used up the holidays and it just got passed on. Everyone just gives him, for example, 15 people giving £20 a week and it works out one person gets something every week. So, if there is 15 people, will take 15 weeks to roll over that everyone gets it.'

Client, London

In Scotland, a similar scheme was called a Menage. This was described as something that would usually be in workplaces or local community groups. When asked about it, male respondents described it as a woman's activity. A way to save for Christmas or buy new school uniforms for the children.

'I was, the menage was actually quite good if it is done properly like in your workplace, we done it years ago so like we get paid on the 14th so we would put in a tenner or so, then every six weeks you would get back like some money so actually that was quite good, if it is done like that.

But if it is like bigger you know… my granny so she used to do menage in my area and it was a headache for her, and she was trying to chase money off people and trying to get money and stuff but it is like work.'

Client, Glasgow

[47] Equifax bi-monthly webinar Market Pulse (slide 17) 5th October 2022

The menage is so embedded in West of Scotland culture that a common phrase 'you couldn't run a menage' is extremely well known and there are dozens of website articles and references to it.

As described above, small schemes with people who share common and strong social bonds work well due to trust and the mutually beneficial arrangement. However, there is little support for organisers when this trust breaks down and members do not make their payments.

Whilst these are not generally predatory, and are more targeted at collective upward social mobility, the unregulated nature currently leaves little protection for members and organisers.

We do not consider these unregulated schemes to be problematic in the same way as illegal moneylending, and are outside the general findings on illegal lending.

How does digital exclusion interact with illegal lending?

Part of the reason participants chose not to apply for certain types of credit was because of an emerging form of exclusion that affects access to financial services, this is digital exclusion.

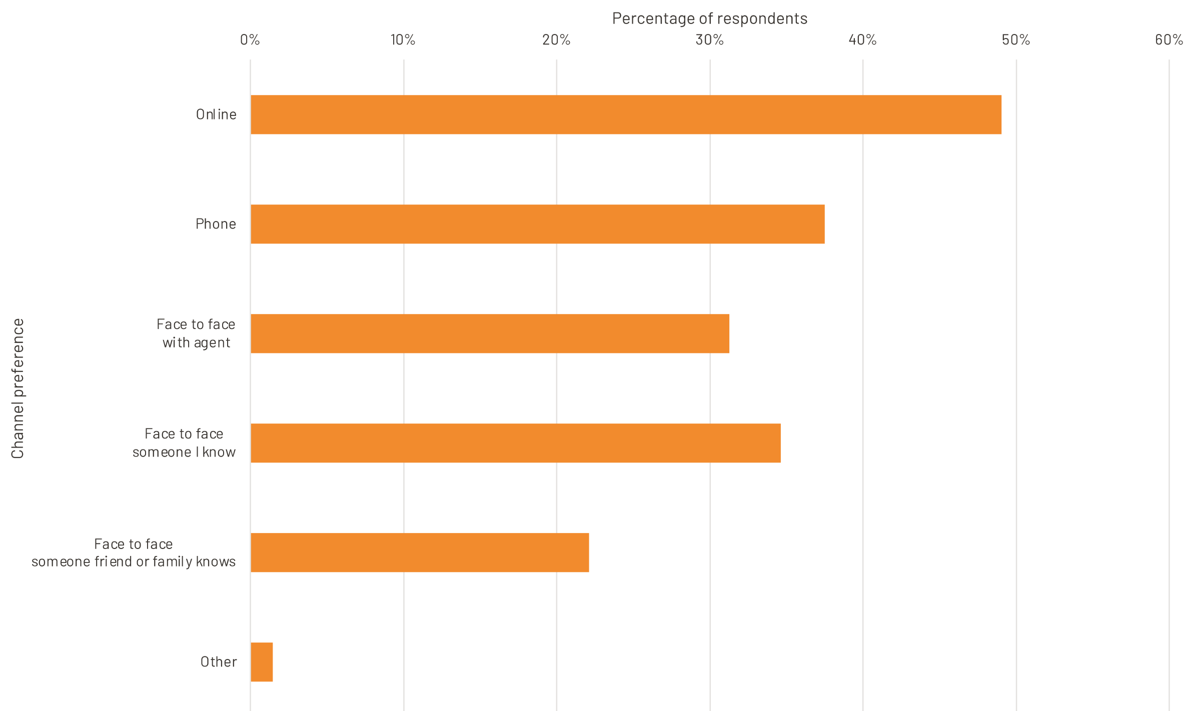
However, **76% of respondents used both a smartphone app and websites to manage their bank accounts. Only 24% did not have access to digital banking. This is significantly under the percentage of the UK population, as it is estimated that 93% of all adults in the UK engage in online banking on either a website or mobile phone app**.[48]

Therefore, when we consider the group participating in this research, they are 17% more financially digitally excluded than the general population.

When asked about where they would prefer to get access to credit, it was not just the 24% who did not have access to online banking that said they would prefer to speak to someone over the phone or in person rather than apply for credit online. **Less than half (49%) of respondents chose online as their preferred credit application method, even though 27% more of the respondents regularly used online financial services**.

[48] https://www.statista.com/statistics/286273/internet-banking-penetration-in-great-britain/

Figure 15: Preferred choices of respondents, by percentage



There were no specific gender or ethnicity differences in this study when considering preferences towards face to face lending, the only demographic that favoured it above online or telephone options were the over 50s.

This preference for face to face interaction during the process of borrowing money and the reduced presence of mainstream financial services in certain geographical areas has helped to geographically cluster in person moneylending to specific types of community. So much so that illegal moneylenders' positions within council estates and areas of deprivation and low socio-economic status have become part of the very fabric of such areas. As home credit vacates illegal lenders may be the ones who fill the gap.

'I grew up in Yorkshire but you know they were about then and then they were about on the council estates and you know I have been on many in the country in my years, so you know it was just if you needed a bit of money there and then it was a... an easier sort of way to get it.'

Client, Glasgow

This geographically located vulnerability to illegal credit is something that will be discussed further in section 5 and is something Leyshon et al (2004) highlighted as promoting door to door money lending.

'**Different sections of the society exist within distinctive 'financial ecologies'.** Poor inner-city and peripheral local authority housing estate areas (PIC/PLHEs) were identified as having a financial ecology characterised by a thin provision of services by mainstream financial services, which were focused instead upon the financial ecology of the middle-class suburb.

The relative absence of mainstream financial providers within PIC/PLHEs, and their aversion to doing business with its inhabitants given their relative lack of assets and disposable income, mean that it is the 'home-collected credit industry'—door to door moneylending—which is the most dynamic part of the financial services industry operating within such areas' (Leyshon et al., 2004).

Whilst this is written nearly 20 years ago, digital exclusion, due to lack of access to devices, lack of understanding or trust in using financial services online, a resistance from mainstream banks to lend the small amounts that people are often looking for, the concerns mainstream finance has toward a price point that will sound high to meet the risk, a tightened affordability criteria that has all those involved in the provision of consumer credit articulating concerns around complaints to the Financial Ombudsman Service (FOS) led by Claims Management Companies (CMCs) and the roll back of legitimate door to door lenders operating in the UK, in part supports the possibility that lower income households will have fewer not greater options for credit in the future which illegal moneylenders may capitalise on.

Parallel lending

Parallel lending is the term used to describe a situation where agents of legal doorstep/home credit firms operate either a side book by themselves, not linked to their employer and without their employer's knowledge, or where they no longer lend for their legal firm at all and continue to operate a loan book as they know the mechanics of lending, and often the customers.

Less than a decade ago Provident Financial employed 10,000 self-employed agents, today they have none.

In some areas, illegal lenders recruit former legitimate home collection agents to continue to work in the areas they previously worked, mirroring legitimate models to capitalise from the trust already built by legitimate lenders.

> 'Matt is the manager now... the weirdest part about this is Matt used to be the manager for (former RTO company). He called me up and said 'Hi (name) it is Matthew, do you remember me from (____)? I am the manager of this now he said, and your account is in arrears, when are you going to sort it out?'
>
> Client, London

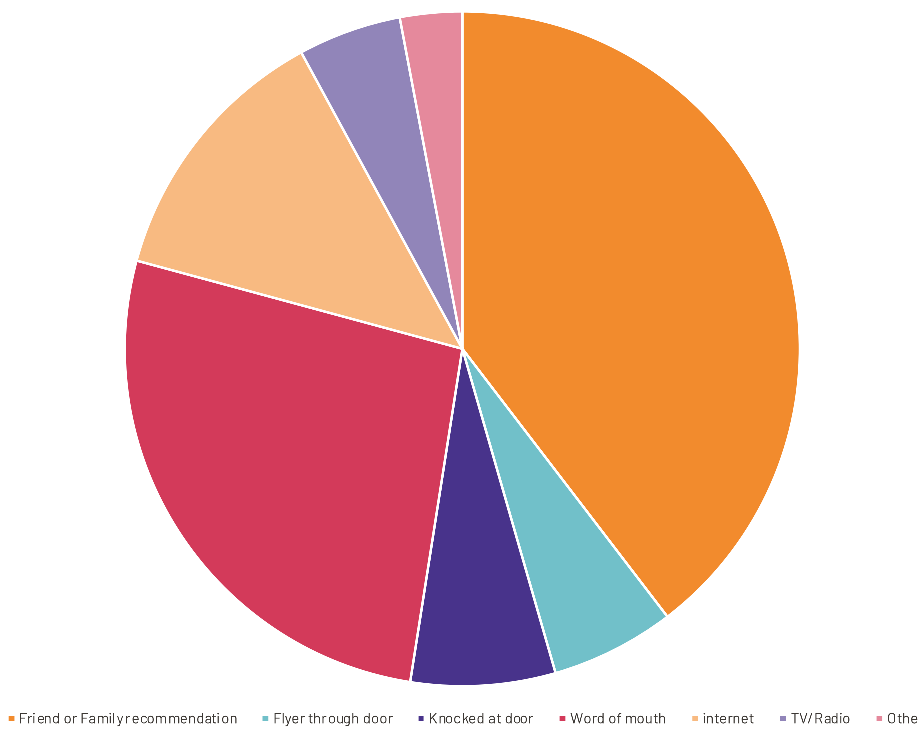
In this case, a manager moved from a legitimate company to working for an unregulated lender as a collector. Others have only realised by the collector's behaviour that they are lending money 'off books'.

‘I knew a guy that is from (company) right and he was basically coming and lending the guy whenever he liked, do you know what I mean? There was nothing written it was... he was (messing) about, I think it was actually some of it was his money he was using, do you get what I mean? And not the companies so I think a lot of it he was lending to get his profit.’

Client, Port Talbot

Survey respondents told us that most of them were introduced to the moneylenders they have borrowed from by friends or family (40%) or by word of mouth (27%).

Figure 16: Method of introduction to moneylenders, by percentage of respondents



Within this parallel lending model, illegal lenders appear to follow similar forms of peer recruitment to widen their client base. Often offering incentives to recruit friends and family.

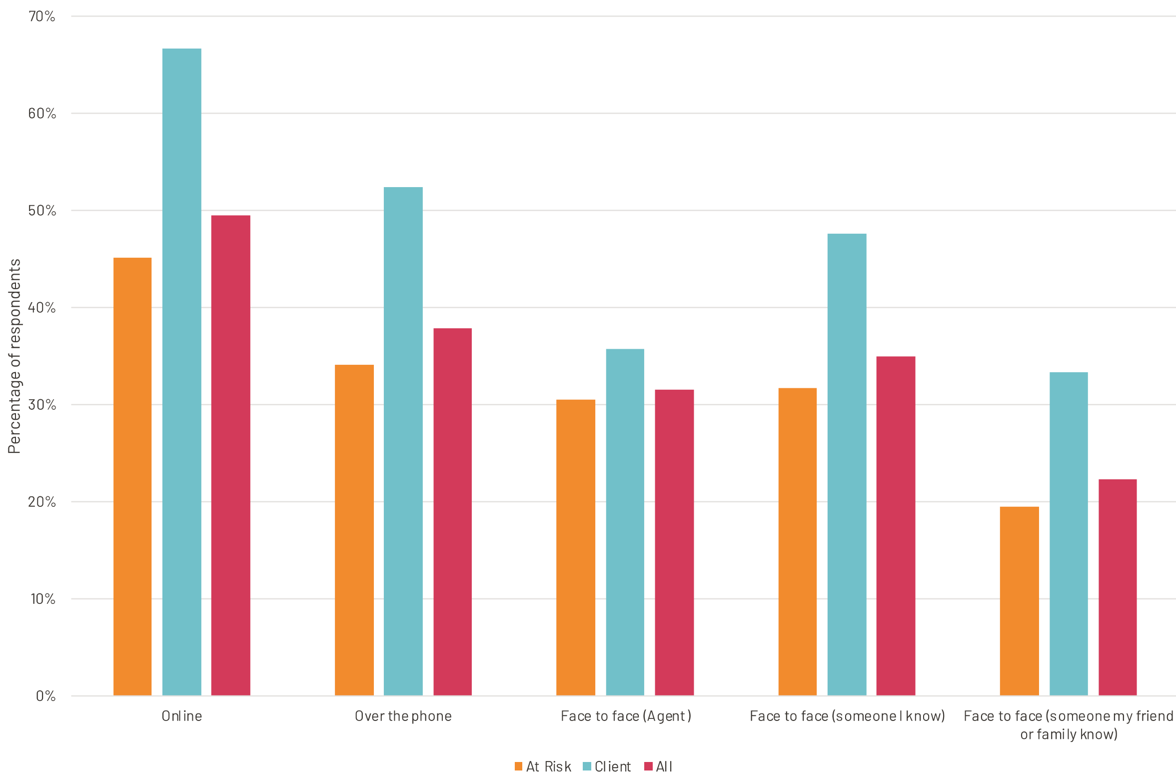
Many of the interview participants told us that they had been recommended by a friend or had taken loans with illegal lenders because family members had introduced them.

‘They say if you get your friend, any friends to sign up we will knock £10 or £15 off your bill and each friend you get signed up, you get £15 off your bill. And then when you have knocked all of this money off your bill, they go right then your loan is nearly finished, erm do you need a top up? You can have £300.’

Client, Port Talbot

When we examine those at risk and those that are already clients, we can see that overall, those who are current clients are prepared to obtain money from any platform, with higher engagement with all types of lenders.

Figure 17: Preferred channel for respondents to borrow money from moneylenders, by percentage



This may suggest that those already borrowing from illegal lenders are in situations where they simply require access to money. Therefore, borrower decisions around how to obtain finance become a secondary concern, with access to money from any available sources explored and obtained.

It is possible that clients of illegal lenders are caught in a credit trap, where credit is obtained to meet their daily needs rather than for 'one off' purchases or emergency situations.

Vulnerability

> 'I literally run my own business for two years and I was lending people money that were vulnerable, but do you know what? I kind of had a bit of a sort of bit of morals and that, some people don't have the morals in this sort of industry and they just… they don't care if you're a single mum or you're not working or things like that, they are happy to give you the money so that they put the pressure on you to give it back to them.'
>
> Lender, London

One of the key themes from the qualitative interviews carried out was around people in vulnerable circumstances. Both clients and those at risk discussed being vulnerable at the time of taking the loan, or generally feeling that the lenders preyed on the vulnerable.

Lenders themselves openly admitted to targeting people with vulnerabilities as it would offer them guarantees that they would become repeat clients with little means to hide from the lender if they decided not to pay anymore. Overall, vulnerability appeared in two ways. Firstly, some of the people we spoke to who are currently engaged in borrowing money from illegal lenders were what we would consider in law a 'vulnerable adult'.

In the UK[49] the definition of a 'vulnerable adult' means a person aged 18 or over who is receiving services of a type listed in paragraph (2) below and in consequence of a condition of a type listed in paragraph (3) below has a disability of a type listed in paragraph (4) below.

(2) The services are: accommodation and nursing or personal care in a care home; personal care or nursing or support to live independently in his own home; any services provided by an independent hospital, independent clinic, independent medical agency or National Health Service body; social care services; or any services provided in an establishment catering for a person with learning difficulties.

(3) The conditions are: a learning or physical disability; a physical or mental illness, chronic or otherwise, including an addiction to alcohol or drugs; or a reduction in physical or mental capacity.

(4) The disabilities are: a dependency upon others in the performance of, or a requirement for assistance in the performance of, basic physical functions; severe impairment in the ability to communicate with others; or impairment in a person's ability to protect himself from assault, abuse or neglect.[50]

Others in the study may not necessarily meet the criteria of a vulnerable adult, but had experiences, circumstances, and responsibilities that may make them more vulnerable to engaging with illegal

[49] Police Act 1977 (Enhanced Criminal Record Certificates) (Protection of vulnerable adults) Regulations 2022
[50] Police Act 1997 (Enhanced Criminal Record Certificates) (Protection of Vulnerable Adults) Regulations 2002

moneylending.

The FCA define a vulnerable customer as someone who, due to their personal circumstances, is especially susceptible to harm. Everyone is at risk of becoming vulnerable at some point during their lives. This risk is increased by characteristics of vulnerability related to four keys drivers:

- **Health**: this could be ongoing physical or mental health issues for you or loved ones, sudden health needs or simply ageing ailments that affect ability to carry out day to day tasks
- **Life events**: anything from birth and bereavement to a relationship breakdown or losing your job
- **Resilience**: low ability to cope with financial or emotional shocks, including lack of savings and insurance safety nets or low emotional resilience
- **Capability**: this spans financial knowledge, your ability to pay for things, future planning, environmental and income factors

Evidence suggests that those in the most vulnerable circumstances are impacted by each of these drivers. And that these drivers will shape customers' needs over the whole of their financial lives'.[51]

This may be due to where they live, their socio-economic status, and whether they have any mental health difficulties, including addictions.

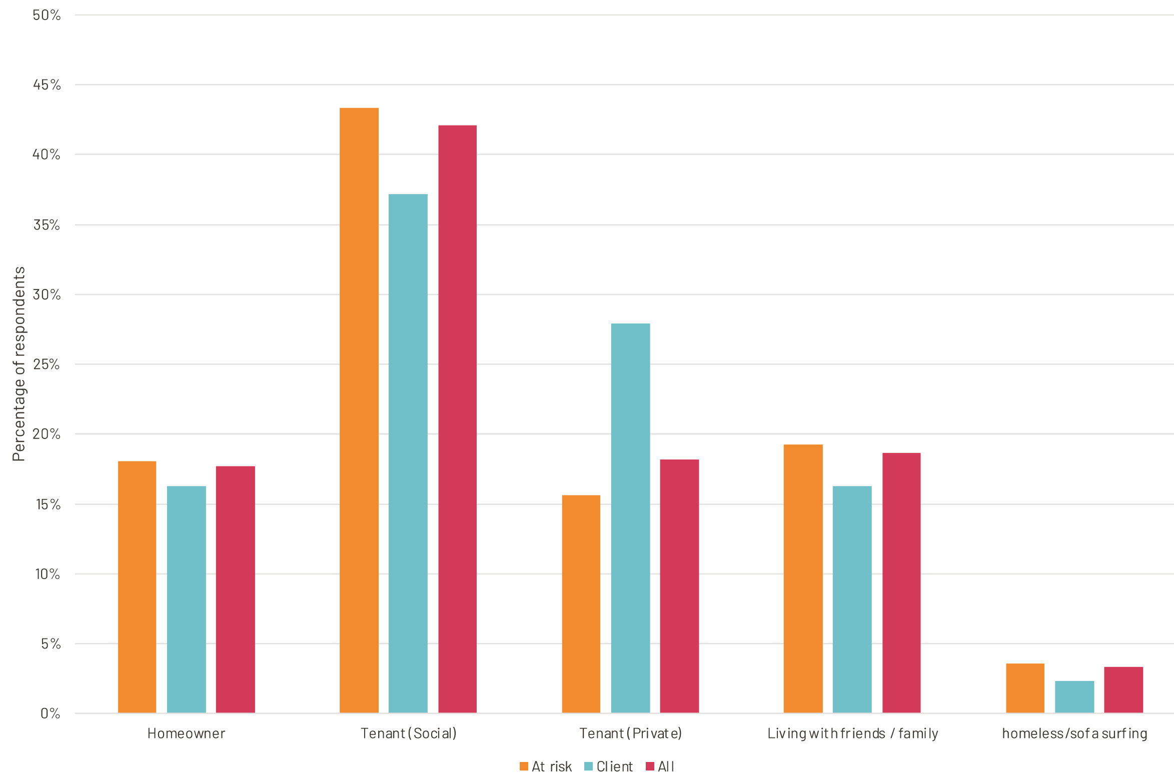
'Yes, **he could see I was vulnerable**. Even people who get the social money get paid. He gets paid, you know, 12 o'clock at night, and the amount of people—you get 10, 15, 20 people hanging outside the post office in their dressing gowns all waiting for the money to be, to come. And you get people going the same thing: 'Borrow money?'

Client, London

Illegal lenders have often been found to be predatory when it comes to recruiting new clients. They will target vulnerability specifically to ensure that they are paid regularly, with illegal lenders targeting specific places at specific times to attract clients.

[51] https://fair4allfinance.org.uk/about-us/

Figure 18: Tenure of housing of moneylending



Most people who were using illegal lenders rented their home, both at risk and current clients, social rented tenants were the biggest single group in both groups around two in five. The most noticeable shift between those who were 'at risk' and 'clients' was from social to private renting.

The majority of former home credit users are also renters. 70% of home credit borrowers and 66% of payday loan borrowers had been found by FCA to be renters[52], these two products being those in greatest demise.

Fewer than one in five people owned their home, again, a correlation with former home credit and payday users.

Morses Club currently the largest home credit lender reported their customer was in March 2023 in social housing (45%) and in private housing (34%). Their borrowers who owned or jointly owned their home was 6%.[53]

The illegal lenders that we interviewed all lived within the communities they served. Therefore, this often meant that they also lived in social housing and shared some of the same issues or vulnerabilities of the client group.

The 2022 CSJ report also identified social housing tenants as those most at risk. Around half of all social

[52] Financial Lives Survey 2020 Appendix A
[53] Morses Club customer profiling presentation March 2023

housing is within the most deprived 20% of communities, around a quarter of private rented housing is within the bottom 20% and just over a tenth of owned property is in the most disadvantaged 20%.[54]

'I lived on a council estate, and you know, family, and you know, I was collecting on the same council estate that I lived on. So, I knew half of these people, I smoked drugs with half of these people.'

Lender, Preston

Living in social housing meant that many of the people in this study had safe, secure accommodation. However, recent policies, such as the bedroom tax, disability benefit cuts, increased sanctions, non-dependent deductions, discretionary HB changes and freezing of many benefits for prolonged periods has led to reduced discretionary spending, and the housing crisis in most inner-city areas but particularly in London, meant that they faced additional charges to their rent that are unsupported by welfare benefits.

As this client told us, the pressures on her since she was rehoused have been part of the reason she has turned to illegal lenders.

'I am in a three-bedroom house in [place], the council placed me here knowing full well that my two eldest sons couldn't come and move here with me, so basically, they moved me into a property that is just me and my son. **They gave me a free bedroom so ever since I have moved in here, I have had to pay the bedroom taxes which is £120 a month**. It is kind of I am getting fleeced right, left and centre so I had no option because they gave me this property, it was either take this property or move to Wales. And take a property there.'

Client, London

This client is in receipt of welfare benefits and used illegal lenders to help with manging day to day finances to keep her home. Others in the study had no property at all. Some of the most vulnerable in this study were classed as homeless or were living in hostel accommodation.

Substance misuse was invariably linked with homelessness. **Within this study only 3% were street or hostel homeless or sofa surfing. More people were insecurely housed by living with family or friends (19%).**

Less than half (43%) of those that are homeless said they used the money they borrowed from illegal lenders to pay for drugs or alcohol, with 16% of those living with friends and family using money borrowed from illegal lenders to pay for drugs and/or alcohol.

[54] English Housing Survey 2018 Stock profile in bottom 20% owned (12%) private rented (26%) social rented (49%)

'I was a substance abuser as well. I was a class A substance abuser for about 6 years... because I mean I was homeless at 15/16 and then ended up in... erm a homeless hostel with unsavoury sort of characters so I was introduced to a world which I was too young and I ended up messing things up.'

Client, Preston

Insecure housing and substance misuse would generate a need for money with little legitimate means of obtaining it. So those with significant intersecting vulnerabilities like this would become willing customers and a profitable target, with lenders telling them to find the money any way they knew how. Often this meant turning to crime or other moneylenders to pay their debt.

Other forms of addictions such as gambling were to blame for contact with illegal lenders with 9% of respondents saying they had used the money they borrowed from an illegal lender to gamble. One client pointed to how his dad had always used lenders to help fund his gambling habit.

'I grew up with money lenders, my dad was a... he was terrible for... it was gambling and it was money lenders.'

Client, Port Talbot

Whilst gambling was not as common an issue as drugs and alcohol, the links between all forms of addiction and illegal moneylending became more apparent throughout the interviews. When we asked one client where they may go to find a moneylender if they needed to borrow money right now, they replied:

'The pub. Well, they are always in there do you know what I mean because like they lend me £20, £40...You can't really... like you can't go borrowing £100 you know you have got to pay £200, you haven't got £200 to pay back.'

Client, Glasgow

The smaller amounts of money borrowed, usually under £50, indicated that the loan was to cover drugs or alcohol. Those who did not indicate any substance misuse issues would tend to borrow higher amounts and for different reasons. The most cited reason being for Christmas or birthdays.

Another category of vulnerability that was often cited was being a single mum. However, 49% of respondents did not have any financial dependants (children or adults),

'Coming as a single mum I have had to rely on them all of my life really, it has been hard for these different agencies or what not, like no one was going to provide for my boys and obviously my money that I was earning was covering the child care and the rent and stuff like that so I had no money but I wanted to obviously give the boys the best stuff to give them so in time you end up getting in debt.'

Client, London

The pressures of lone parenthood and struggling to make ends meet brought another intersection of vulnerabilities together in this research, namely, substance misuse and sex work.

> 'I am not going to hide it, I am very open, it took so much out of me… there is so much out there that people don't know right but obviously then I turned to drink and drugs because obviously my partner left and then I got on the gear and I had a gear problem you know that come in turn with like doing cam work.'
>
> Client, London

Here she explains that her addiction and relationship breakdown led to her doing online sex work to fund her habit. She explains later that even though she is a single mother, her children have now grown up. As such she has reduced access to welfare benefits and suffers with mental health issues and substance misuse that prevented her from working a 'normal 9-5' job.

Engaging with illegal moneylending is often an indicator of financial desperation. Therefore, those who are in the most vulnerable circumstances will also engage in other money-making activities that they may not have chosen to do had they not absolutely needed to.

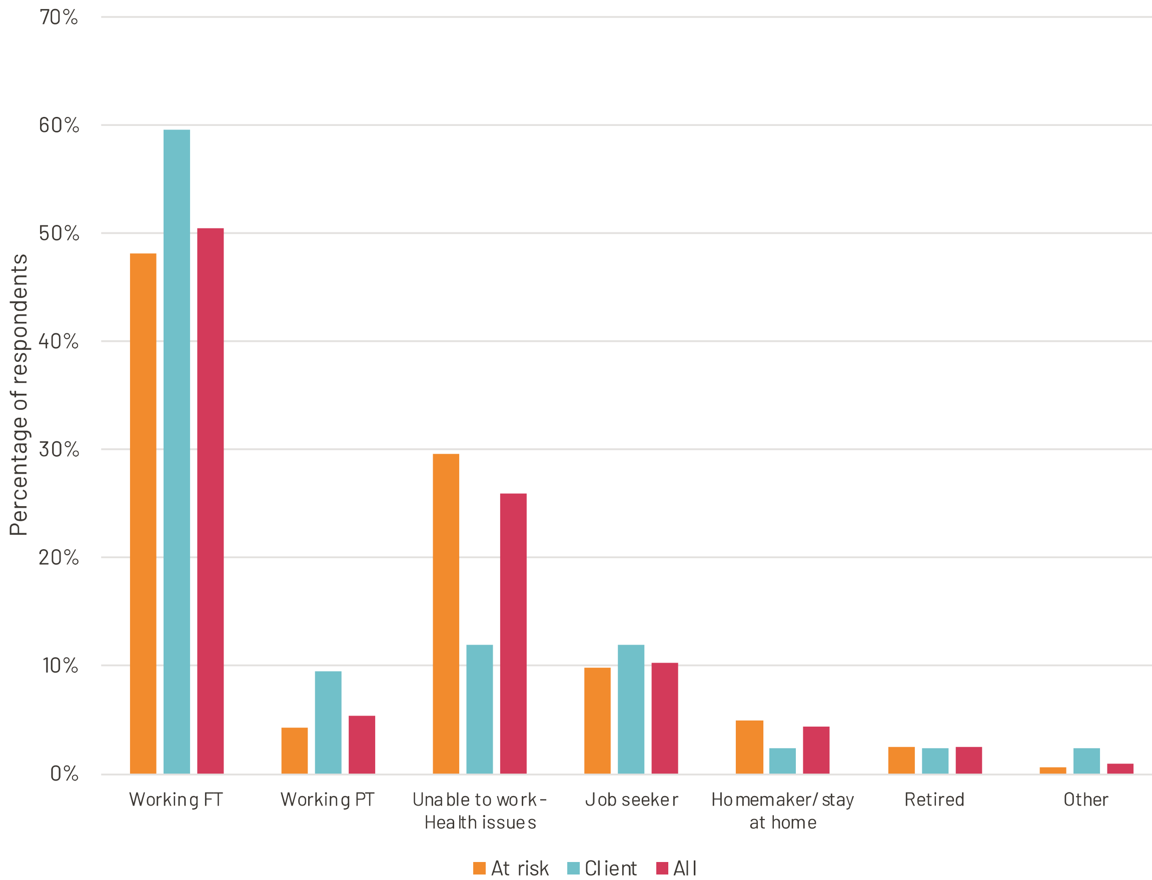
Taking out loans with illegal lenders then becomes a signal of not being able to cope or support themselves on their own. Something that many of the clients described as shameful and that they didn't want others to know.

> 'I didn't want anybody in my family to know that I was getting a loan and I knew what I wanted it for which was to just drink more so I could block out all of my first world problems that I have. So kind of if you like a defence mechanism for my dad dying.'
>
> Client, London

What the vulnerabilities of the participant population show is that illegal moneylending is a by-product of intersecting vulnerabilities. The more vulnerabilities a person experiences, particularly those that impact an individual's socio-economic circumstances, the more likely they are to engage with illegal moneylenders.

Whilst we have explored some of the reoccurring vulnerabilities found in the participant population, what may be more surprising is the characteristics found within the data that don't necessarily resonate with the assumptions we may have about who the people who borrow money from illegal lenders are.

Figure 19: Employment status of respondents, by percentage



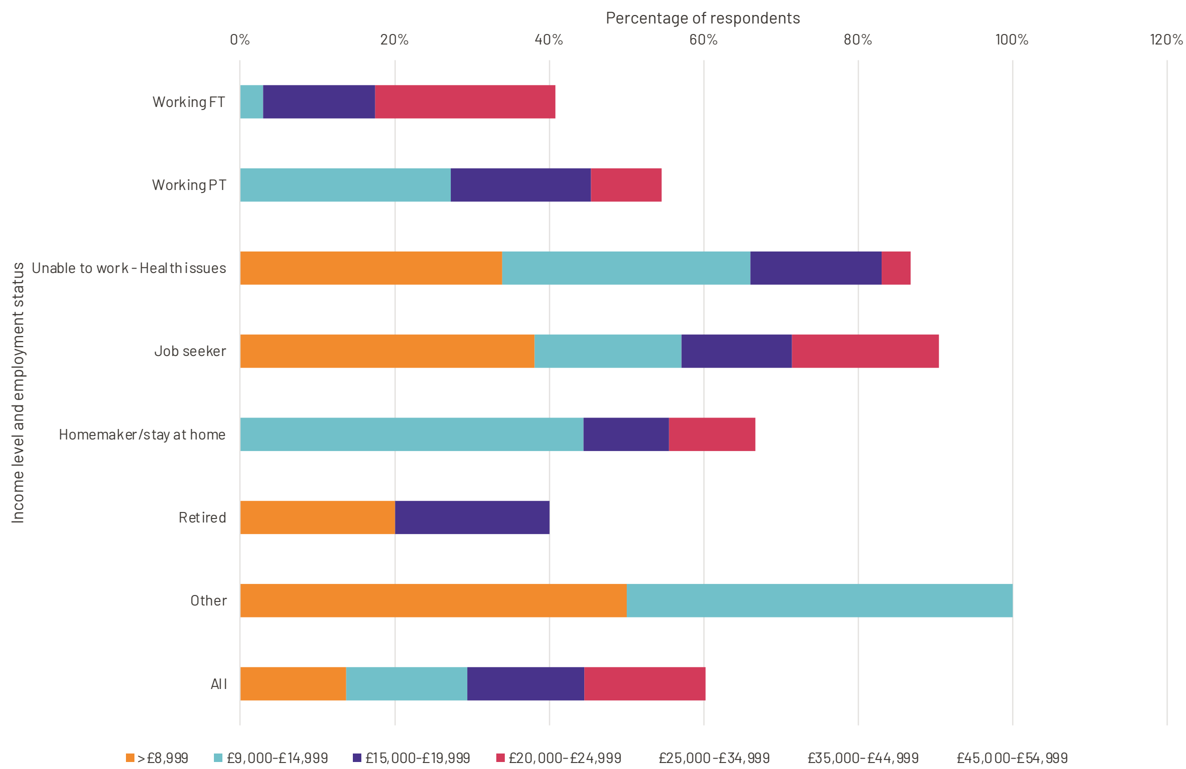
Many of the respondents were employed full time and not in receipt of welfare benefits. 55% of respondents told us they worked either full (50%) or part time. (5%) More of the client group (60%) worked full time than the at risk group (48%).

This could point to a widening of the net in terms of illegal lenders' client base. As those at risk are categorised as such due to their engagement sometime during the past three years. In the client group 63% of respondents do not claim welfare benefits, with 52% of the 'at risk' group also not receiving any supplementary help from the government.

It is a small sample size, however, from our data it might indicate that the current client base is changing from a more vulnerable welfare benefit claimants, towards those who are employed full or part time.

More of the client group are in full and part time employment, with the at risk group facing a much higher level of unemployment due to health related issues. This again reinforces that those who are 'at risk' of engaging with illegal lenders are more so at risk due to particular vulnerabilities, such as mental or physical illness or disability, or issues with the long term effects of substance misuse.

Figure 20: Income levels and employment status, by percentage of respondents



When we examine how employment and welfare benefit claimant status impacts annual income, we can see that jobseekers and those unable to work due to health issues had the lowest annual income.

However, as the graph above shows, **those that are working full time but have engaged with illegal lending have incomes up to £54,000 pa, with most people earning over £20,000 a year**. The ONS reported in 2023 that average total income was £630 per week, or £32,760 pa[55].

This means that those engaged in borrowing from illegal lenders are increasingly not only 'vulnerable adults' but the aperture is widening to those in full employment.

Organisation for Economic Co-operation and Development (OECD)[56] examine average earnings in the UK and analyse the median hourly earnings for all employees in 2022 are £14.77, therefore low-pay employees are anyone earning below two-thirds of £14.77, which is £9.85. High-pay employees are those earning anything above 1.5 times £14.77, which is £22.16. In this data:[57]

- 45% are considered equivalent to low-pay employees
- 48% of all respondents in this study earning the average hourly rate for employees within the UK
- **7% are considered equivalent to high pay employees, earning more than £45,000**

[55]Office for National Statistics, Average weekly earnings in Great Britain, March 2023
[56]Office for National Statistics Low and high pay in the UK: 2022
[57]Calculated using a 35 hour working week (annual salary / 52 weeks / 35 hours).

Of those working full time, four in five are earning an average or high-pay hourly rate, and just over half of those who work part time earning an average or high-pay hourly rate.

A question to consider here is why are individuals who are earning average or high-pay salaries, who are maintaining employment, borrowing money from illegal moneylenders?

This question arises even more when you consider particularly when those that have borrowed from illegal lenders in the past show lower levels of employment and higher levels of reliance upon welfare benefits?

This will be explored further in section 7 (cost of living). However, respondents who had access to welfare benefits described how they would turn to the welfare benefits system to borrow up to £1000 when needed. With many of them describing how they have used budgeting or crisis loans in the past.

However, many of them complained that these are now harder to obtain and increasingly becoming less reliable. In 2021/22 the DWP issued £303m in nil interest benefit deducted loans, a reduction of around a third from the peak issuance of £448m in 2017/2018.

Figure 21: Budgeting loans issued by DWP at nil interest 2012 – 2022

2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
£455m	£416m	£415m	£405m	£412m	£448m	£462m	£396m	£239m	£303m

Even though such loans are now harder to source, those in full employment and not in receipt of any welfare legacy benefits. Have no access to this safety net. It is possible, that this may in part help explain why those in full employment are increasingly engaging with illegal lenders.

When considering vulnerability and illegal moneylending we need to look at who is currently a client of illegal lenders (client) compared to those who have previously engaged (at risk) to highlight the demographics of who we would consider vulnerable to illegal money lenders. However, we must also understand the lived experiences of vulnerable adults who are specifically targeted by illegal lenders.

Their experiences are not only made up of how and why they came to be clients of illegal moneylenders, but also what happens when things go wrong. The next section will examine the harms of illegal moneylending.

Direct harms of illegal moneylending

'I didn't actually go looking for punters, you know? Seriously, if punters know there's a money lender out there, they throw themselves at you. Yeah, and it is purely word of mouth and there is more lenders than could possibly lend, you know?'

Lender, London

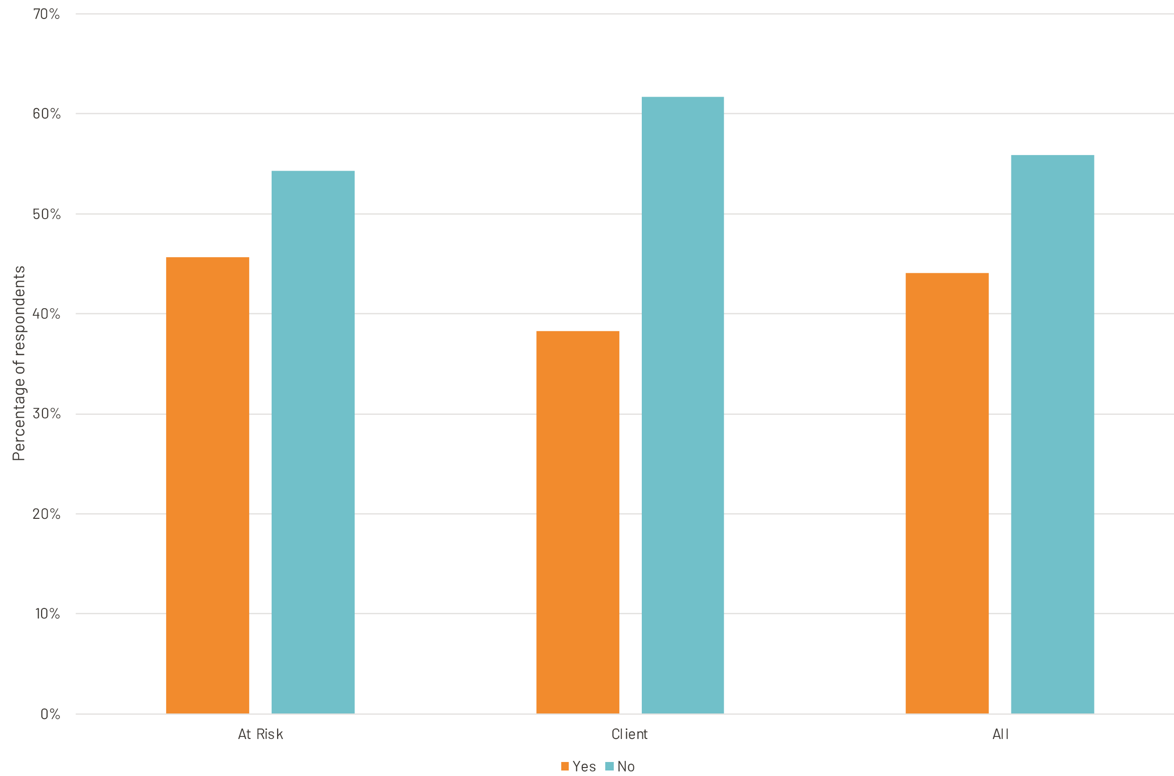
' You only had to really find out where they actually lived, what the registration number of the car was, where their mum lived, what school the kids went to, and you could lend them. They didn't need to, you know, you actually knew that most of them couldn't pay you back. You was quite aware of that. Because you actually look at it as a long-term process.

'Your volume of money returned is astronomical, you know. The longer they couldn't pay you back, the better it (...) was, do you know what I mean? So, now I only do it to people I know that can pay me back but before I was a little bit more maverick, a bit more mercenary as well, and the lending the money and the getting the money off them isn't actually the illegal bit. It's what happens when they don't that actually makes it all illegal, yeah?'

Lender, London

Whilst this illegal lender's account and understanding of what makes illegal lending legal or illegal is wrong, what he does show is acceptance that harms, such as violence and added interest above agreement, to enforce repayment, are a normal part of illegal lending. **44% of all respondents had experienced direct harms from engaging in illegal moneylending,** usually perpetrated by the moneylender themselves or their associates.

Figure 22: Percentage of respondents who have experienced direct harm in relation to their borrowing



The 'at risk' group had slightly higher levels of negative experiences with illegal lenders than the current client group. This is likely to be for several reasons:

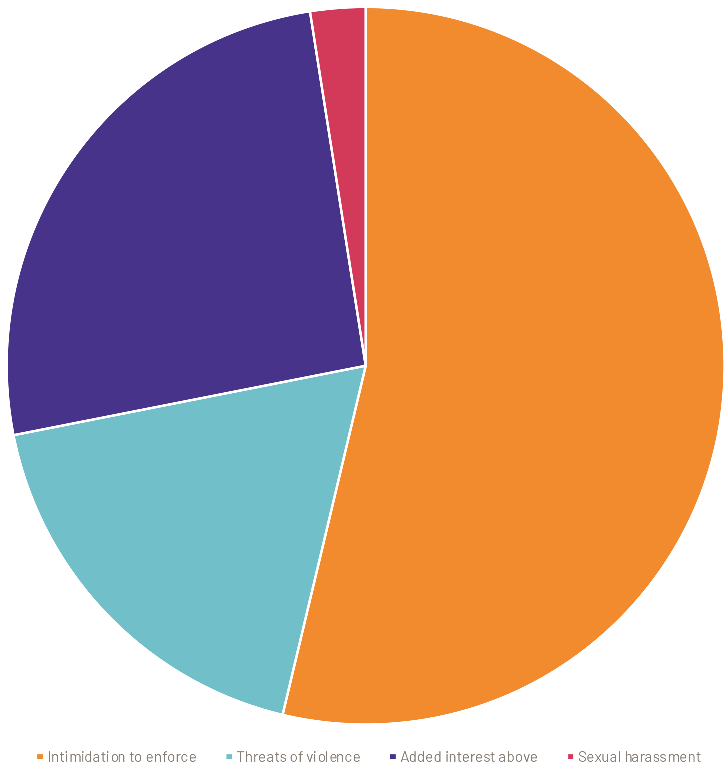
- At risk clients are not currently borrowing money from illegal lenders. This may be due to negative experiences, so they have chosen to no longer borrow money this way
- Four respondents considered at risk had reported the illegal lender for direct harms; only one current client had reported harm from their lender
- Current clients may be satisfied with their illegal lender dependent upon their stage in the 'client journey'. If they have never missed a payment, they may not have encountered any issues, but may do later in the lending relationship if they cannot afford to pay

It is also possible that current clients are less likely to report harms, even if experienced, as they need to keep borrowing from the lender. Therefore, even though this survey is confidential and not linked to any sort of enforcement or authority, participants may be reluctant to share their experiences due to fear of it affecting their borrowing relationship with the lender and ability to borrow money later.

When we measured for different types of harms experienced due to illegal lending, we looked at harms directly perpetrated by the illegal moneylender. There are secondary harms, such as affecting the client's mental or physical health, which we have captured partly within the discussion of vulnerability.

Of those who responded and told us of the type of harm they had experienced, the overwhelming response was around threat or intimidation. Other forms of harms that were reported qualitatively but not reported in the survey were damage to property (car and house smashed up) and telling others about a client's debt to shame them.

Figure 23: Multiple choice answers from all participants. 'What problems have you experienced with your money lender?'



How connected to threats, intimidation and violence is illegal money lending?

Among the participants we spoke with, it seemed that more often than not illegal money lending doesn't result in threats, intimidation and violence, and payments are often made without consequences, the research did highlight the connection of illegal lending to this behaviour.

Threats and intimidation

Participants recalled many incidences of threats and intimidation to ensure that they repaid their loans. **Most accounts of threats or intimidation described harassment through repeated phone calls or visits to their property or workplace.**

Whilst many participants categorised this as threatening or intimidating behaviour, many knew that the illegal lender had no right to enforce the debt, so they felt safe if the lender didn't enter their property.

> 'Knocking on the door, and they were like banging on the windows and stuff. One even pulled a ladder out to go up the window, go upstairs because the window was open. Yes so I just went upstairs and shut the window.'
>
> Client, Port Talbot

Clients often knew their rights and would use the physical barrier of the front door or closing windows to keep the lender away.

> 'The way that works is it is a variable contract but it is not a legal bill so the police can't do anything about it, they basically tell you that you need to grass them in, which in Scotland we don't do right, so erm you know like that is just a no option or you don't pay.'
> Client, Glasgow

This was often interpreted, particularly in Scotland, as both a good and bad thing. They knew that the debt was not legally enforceable, but they also knew that unless they became a formal witness, then the police (or IMLT) could not do much to help them.

Scotland needs corroboration on IML activity too, a witness alongside the victim, unlike England and Wales which reduces the likelihood of criminal proceedings.

The closed nature of some communities, and the reluctance to 'snitch' or 'grass' on the illegal lender, was protective for the illegal lender. They knew the community would not testify against them, partly because many of them needed to be able to use the lender again in future, but also because if someone did 'grass' then they would be shunned by the community also.

This gave lenders a lot of power within these communities. This power led them to threatening organisations that try to help those who are vulnerable to illegal money lending.

> 'There is one just round the corner there and we used to run a café for the addicts because they were standing out in the street and because they couldn't get into the local cafes, so they used to come in and we used to give them tea and he threatened us, threatened the minister about you close because we were giving them tea for nothing. But yes, it closed down, just for the sake of the church because he would burn the church down, that is how low they would go.'
>
> Client, Glasgow

Participants felt they were often able to handle threats to themselves, but they felt threats against their family were more serious and impactful to them.

> 'Stuff was going to happen to me, but not just me, I get threats came for hurting my family, do you know what I mean? It was oh your mum is getting this, your brother is getting this.'
>
> Client, Glasgow

Threats against family were a recurring theme. Participants often felt very low self-worth and desperation when taking out loans with illegal lenders, like they had 'nothing to lose'. Therefore, they did not care what the loan might mean for them, but when threats were made beyond them, the reality of the harm was felt.

> 'I don't care about getting a kicking, I have had a few kickings in my life; it was when they said my foster carers are going to the door (become targeted).'
>
> Client, London

As this participant shows, the threat of violence against their family became more impactful to him than violence, which he had also experienced. Threats of violence or intimidation was often coupled with violence against them or accounts of violence against others.

Violence

> 'I knew the man and I knew of violence that has been dished out by the man, he just needed to tell me that I had to grow (cannabis) because I owed him money and I needed to pay my debt and it was...violence was never directly said but I had seen him give someone a leathering with a metal pole.'
>
> Client, Glasgow

Violence did not always need to be experienced to get people to pay. Illegal lenders that resorted to such tactics often did so in front of other clients or publicly, so that the message may be spread amongst their client network that violence would be the outcome of non-payment.

> 'I heard a guy get his hand put into a fire door and smashed (...) 15 times. It was common knowledge that was [local lender] who done that.'
>
> Client, Glasgow

This story was told to us during the research by three individuals that we spoke to from the same geographical area, but otherwise unconnected. One even told us to look out for a man with an arm that was held close to his chest and walked with a limp. Indicating that this local man was the man that had been the victim of this attack, leaving him with longstanding injuries.

The research team did not locate the man, therefore we cannot validate this story, or if it has become a tale of urban legend. However, it has had the required effect, as the community fears this illegal moneylender and will not report him to the authorities.

Other violence that was reported was against property, forcing the victim to relocate to a new city.

> 'I didn't have the money to pay him so my car got smashed one night, just got a brand new car and it gets smashed and then we came up to Glasgow for the weekend, sort of getting respite because we were (done in) to be honest and the house got smashed so I ended up in hospital and then ended up living here so now we stay in Glasgow.'
>
> Client, Glasgow

Many of the participants who reported direct harms from illegal lenders also reported having to move out of the area to escape the harms posed by the lender. There was only one participant who reported paying the illegal lender in full to evade threatened violence. Once he paid the total bill, the illegal lender just left him alone. However, the client had to obtain multiple loans from legitimate sources to do so.

How is interest added for illegal loans?

'I needed to pay something like £5,500 back for taking out £500 over a year, they were obviously not happy with a year, they were giving month to month. I kept dragging out and then eventually I had to go to my mum and dad and borrow two and a half from them and then that is when I went to Amigo loan and got two from them...'

Client, Glasgow

This participant took out multiple loans from legitimate sources, and their parents, to escape threats of kidnap and life-threatening violence. However, as we can see, the initial loan they took out was only £500. They ended up paying £5,000 in interest and fees that he did not agree to or anticipate when they took out the loan. Added interest is a uniting feature of nearly all accounts of illegal lending harms.

'If you don't pay the interest then they roll over, so it is double your interest. Yes. If you do miss a week then they are just on you.'

Client, Port Talbot

This added interest described above appears to happen on an informal basis. However, **there is always a penalty for non-payment, usually either violence, or more commonly interest added at extortionate rates**. As one of the lenders described earlier, this is part of the illegal lending business model. Lenders often want their clients to default sometimes so that they can make more money through added interest and financial penalties.

'The last loan I had was with a moneylender and I missed payment and there was big back interest on it, so it wasn't just like £20-£30 this was like between £50 and £90 they were adding on.'

Client, Glasgow

The added interest increased the loan amounts and put extra pressure on the client. In some cases, although not that commonly, clients were given other ways to pay part or their entire loan.

Exploitation

'Sexual harassment yes. He said he wants to have sex and that, I couldn't. I panicked out of there.'

Client, Port Talbot

Sexual harassment was one of the ways in which clients said they experienced exploitation by the illegal moneylenders. This sometimes manifested as sexual propositions to engage in sex work to pay the debt, other times it appeared more like innuendo and degrading remarks.

> 'Sexual comments were made but obviously I am kind of lucky that I am quite a strong person, but I wouldn't do that, but I can imagine that there are people out there that probably would be that desperate to get these people off their backs.'
>
> Client, Preston

As this participant explains, whilst she did experience low-level sexual harassment, it was during exploitation of her as a source of 'free' labour.

> 'I am going to be straight with you because it is what it is but kind of like I am very, quite a bubbly strong person, but I have had erm innuendos made by these people [...] I lost my business, I ended up going and having to clean their office to pay off my debts.'
>
> Client, London

She also told us that the debt was originally for about £1,000. However, what she could afford to pay was not really reducing her debt, so she had to find a different way. She added:

> "It was probably about a bag, a grand when I erm when I... this has been going on for ages this one. I have had to clean their offices and everything. I was getting myself straight and now I don't even know myself. But every Tuesday cleaning your office, listening to you basically taking money from people, people begging for money things like that and I am in that situation of like I am walking out after a hard bit of work with no money in my pocket but like £30 off a debt it is just degrading.'
>
> Client, London

During the time she would be in the office cleaning, he would make rude remarks and sexual innuendos. She would also overhear conversations between the illegal lender and others who were borrowing money, making her feel even more depressed about her situation. She spoke about the impact this had on her mental health, particularly depression and anxiety. She now rarely leaves the house.

Exploitation was not widely reported by respondents in this study, it appeared that the motivation of the lenders was to get the money back and not generally to be paid in other ways. When asked, the lenders we spoke to as part of this research about payment in other forms, such as sex work or other forms of labour, they did not associate that with their own practices.

One lender remarked that maybe some opportunistic 'old boys' or one man band kind of operations may get up to that kind of thing, but that he saw himself as a businessman and exploitation to him, through sexual favours or unpaid work, did not make business sense to him.

How is illegal money lending connected to fraud and financial crime?

Within the descriptions of how participants had engaged with illegal moneylenders, researchers found that clients would describe fraud and other forms of financial crime as borrowing from an illegal lender. This is probably because the fraudster has misled the client to think that all they are doing is borrowing money and not defrauding or assisting them to commit crime.

> 'We weren't working, we went with this guy that erm said he could get us a mortgage and didn't matter what we were getting in, whether we were working, whether we were on the dole, or what...Let me just explain. He set up a job, a fake job with somebody he knew was self-employed. Who had a factory. Said I worked there and all I had to do was tick yes on the boxes.... They filled in all the forms for us, said what income we had got coming in and all we had to was put our names to it.'
>
> Client, Port Talbot

This example shows how the client knew that the loan that was being obtained through the illegal lender to buy his house was not a legitimate loan. But because the illegal lender arranged everything and the client only had to sign their name, they agreed to the loan and its terms. In this moment they have committed fraud, but do not recognise it as such, they perceive it as a loan.

Within a focus group in Glasgow, there was a discussion about being paid to make bank transfers. This is money laundering, the participants who admit to taking part have been used as money mules. They talk about a tax scam also.

Respondent 4: I have had to transfer money from one bank to another, eh.

Respondent 1: Eh, and it just happens it is so easy on these banking apps to just transfer money and stuff like that as well. It is so easy.

Respondent 3: This tax scam as well so...

Interviewer: What is that?

Respondent 3: Not as if I am saying anything bad but basically you use your details and someone in the HMRC or whoever it is sends you £10,000 and it gets paid into your bank account, you go to the bank and lift £7,000 and give it to them and you get to keep £3,000 to yourself

Interviewer: Oh OK and it is tax?

Respondent 3: It is catching people that are like struggling for money like in debt already that are like oh we can do that.

Respondent 1: And who do we phone? *[laughing]*

Respondent 3: They are all doing it.

In this tax scam client's bank accounts were being used as mule accounts to receive money from HMRC as Covid Business loans, they were then transferring the money to the fraudsters but keeping a portion for themselves as payment.

This is again money laundering. Fraudsters were applying for the loans and grants with incorrect information and using their account to facilitate the movement of criminal funds. It is likely that the fraudsters and illegal lenders in this case are the same people or person. That is how the criminal has got access to money mules, by also being a moneylender.

> 'Send bank transfers and all of that? Eh, that goes on a lot - bank transfers go on now because bank transfers people getting your details.'
>
> Client, Glasgow

A different group within Glasgow also confirmed that 'bank transfers' or money muling, was going on locally, and was related to the illegal moneylenders.

This is something that was also happening in Wales. This participant told us how he had lost his bank account because of money muling, and how it impacted him receiving his welfare benefits.

> 'They closed my account on the 15th of this month. They never told me so yesterday I should have been paid, I should have had my pay yesterday so because of that I am praying to god that they don't go in to your account… the manager said yesterday that it erm… if the account was closed the day before, I am kind of lucky because then it should bounce back to the benefit office so then so much down yesterday, so much down this morning…'
>
> Client, Port Talbot

This participant had completed four transactions of £5000 each time, transferring the money out of the country. For which he was paid £30 each time. This participant was extremely vulnerable and living in a hostel for homeless people. The Illegal lenders targeted this accommodation for suitable clients for both loans and money muling.

Four other participants had also lost their bank accounts because of suspected mule behaviour. This would go on to make them more reliant upon the illegal lender.

‘I was on the streets. So, I always remember, seven in the morning, it was raining, miserable. I was just walking around the street one day. Two geezers sitting in a car and one of them had a Doberman as well. Anyway, and he just said to me ‘y’alright?’, ‘nah, not having a good time, mate’, ‘what’s the matter?’ I said ‘I’m (…) skint. I’m skint.’ And he went ‘have you got a bank card?’ I said yeah. He said ‘have you got any debts? Have you got any loans?’ I said no. And he said to me ‘I can get you £500 today if you want’. I said oh. And then, I said ‘what do I have to do?’ He went—Well, I sat in the car with him. He had a laptop. I don’t know whether he was using the website here or someone else’s website. So he, so then he suggested doing video.

I did feel a bit threatened, to be honest. So I was sitting in the back, I said I really didn’t feel comfortable. He didn’t tell me how much he wanted before it. I was sitting and I was thinking well a few quid anyway, a few quid. So he’s done the video, whatever, he’s sent it to [challenger bank]. And then he said, ‘oh I’ll get the money sent to my account,’ so he got £500 sent to his account, and then he put it in my account. And then he’s made sure, he took me down the bank, and I could only take £300 out every day out of the ATM.

So I took £300 out and he took £200 out for me. I said wow. So I said to him-- he said ‘that’s …’ I said ‘what?’ He said, ‘that’s £200’. I said what’s ‘£200’? So I was left with £100 in my hands and literally someone had robbed me and then that was it. And then he hung around here and a day or two there was about 6 people, 7 people queuing up. He was like a bank homeless. He was giving them all loans.’

Client, London

This participant fully believed he had gone through the process of obtaining a loan. But what he actually described is him completing KYC (Know Your Customer) checks that are done when opening a new bank account.

With this new bank account, the illegal lenders/fraudsters no longer need to ask him to be a money mule each time, they have full control of a bank account in his name for £200. Because they had led him to believe it was a loan, he tried his best to avoid them as he had no intention of paying them back. However, it is likely they know this and it is why they led him to believe it was a loan in the first place.

Fraud and financial crime, particularly the levels of money laundering that has been reported across all areas of the country, shows that illegal moneylending harms are not only the direct harm against the individual client when the client/lender relationship breaks down, but it has an impact upon us all through the funding of organised crime and potential terrorist financing.

How has the cost of living crisis increased illegal lending?

In recent years there have been significant social changes that have resulted in an increase in the cost of living, although for many participants arguably there has always been a cost of living crisis.

The 'cost of living crisis' refers to the fall in 'real' disposable incomes that the UK has experienced since late 2021. Part of this current crisis has been the impact of the Covid-19 Pandemic upon local, national, and international economies. This was experienced first-hand by participants in this study.

> 'After Covid 2020, the company lost a lot of money and the company folded, I lost my job and then the company folded completely.'
>
> Client, Glasgow

The loss of jobs, spending power being eroded, increasing costs such as heating, food, and other essential living costs have combined to mean that participants describe living hand to mouth. A recent segmentation undertaken by Fair4All Finance found 33% of people in financially vulnerable circumstances had nil savings.[58] When discussing using savings rather than a loan, this client told us:

> 'I haven't got any money to put in [a savings account]. In this house the money goes into this hand and it is sorted, and it gets paid out in that hand and there is nothing left in the middle and that is the god's honest truth. We live hand to mouth all month round'
>
> Client, Port Talbot

With all income accounted for, when additional costs occur, more and more citizens face the issue of deficit budgets, where their income is less than their essential outgoings.

In their call for evidence on debt advice clients with deficit budgets in 2022 the Money and Pensions Service noted 'Up to 40% of advice clients [have] a negative budget, with numbers rising. As many as 3.2 million people who need debt advice in 2021 could have negative budgets, requiring additional support.'[59]

[58] Fair4All Finance Monitoring Financial Vulnerability Insights (April 2023)
[59] Debt advice clients with deficit budgets Call for evidence August 2022 (MAPS)

In their response to the call for evidence the Institute for Money Advisors (IMA) reported that clients of debt advisors were using credit, particularly BNPL and other sources of credit to supplement their income, although they also noted that some advisors had indicated that the traditional sources of trying to borrow from friends and family was increasingly difficult as

'In the past where clients would have [for example] a relative who could help out, that's gone now. Everyone's in the same boat, pretty much, and that makes a massive difference, when you have a situation that's generalised like this.' [60]

In our research we found that participants are turning to lenders for essentials. However, the repayment terms add further financial pressure. Despite this, when faced with mounting costs, and illegal lenders recruiting new clients by incentivising their existing client network to recruit friends and family, the temptation of small, easy to obtain, short term loans can be too much.

'Well I think for people… that are in a bad situation at the time, you know maybe you have got no money to last you until your next pay day and especially if you have got kids you know you're thinking where is the money going to come from for their next dinner you know? Or you know or even your own dinner. Or you have got a bill to pay that is coming that you really weren't expecting to come in and then somebody says oh I can get… my loan person will get you a loan for £200 here and now and you can have the money in your hand.'

Client, London

Once that loan has been secured, there is then the additional weekly or monthly payment to the illegal lender to factor in. If your income suddenly decreases, or your costs go up, then there is little room for re-negotiating loans or setting up more affordable payment plans.

'I think it is kind of like the pressure of it, when they put pressure on you, say if your circumstances change when… I have always worked all my life and I am currently unemployed and at that moment I have always paid my bills, but it is hard to get everything paid up when you haven't got that good income coming in. Do you know what I mean? And you do feel the pressure from these kind of people.'

Client, Preston

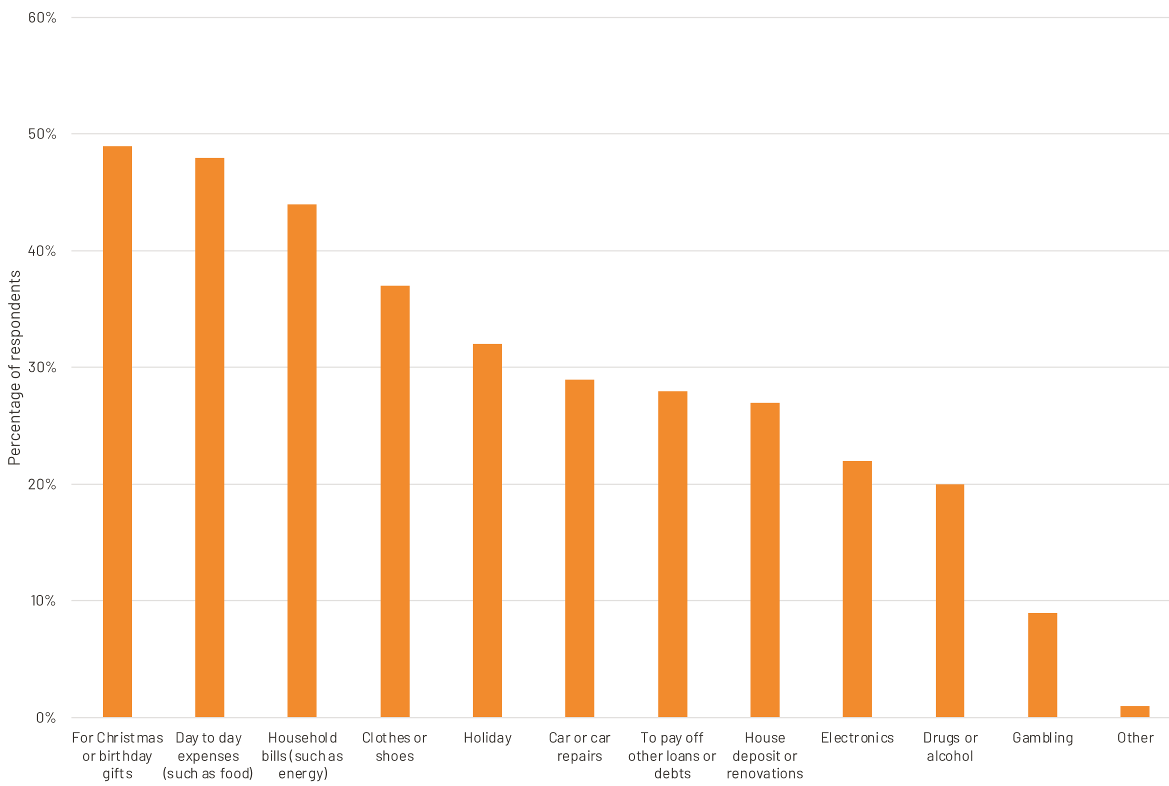
Therefore, the cost of living crisis is beginning to mean that people who may have previously managed to borrow money and pay back at the agreed rate without too much of a struggle, are now finding it difficult to manage. Therefore, some reported borrowing from multiple illegal lenders to make their re-payments and cover their essential daily needs.

When participants were asked what they were using the money they borrowed from illegal lenders for, we were given an indication of the pressures that led participants to engage in illegal lending.

[60] Debt advice clients with deficit budgets: IMA response to call for evidence, 1 December 2022

For the overall group we can see that the main motivation for borrowing from illegal lenders was to cover Christmas or birthdays (49%), daily living costs (48%), and household bills (44%).

Figure 24: Percentage of participants answering 'What did you borrow the money for?



When this is broken down to look at the difference in spending between the at risk and client group, we can begin to see the impact of the cost of living crisis more clearly. The 'at risk' cohort generally used illegal lenders to fund Christmas, day to day living expenses, and household bills. Whereas current clients are using illegal lenders more frequently to pay off other debts, to deal with car or house repairs, and for clothes and shoes.

The client group less frequently used the money for drugs or alcohol than the at risk group, perhaps signalling a reduction in substance misuse within the client group compared to the at risk group.

The client group also used the money to pay for holidays more so than the at risk group. This may be due to the world now opening back up for travel after Covid-19 or be viewed more as a priority by the client group that contains a higher percentage of full time workers than the at risk group.

It is possible that a client that is working may view a holiday as more of an essential, or as part of maintaining a lifestyle they are accustomed to.

When discussing the things they spent the money that came from illegal lenders on, participants discussed the pressures to meet every day needs of their children and the unexpected but regular expenses that they struggle to cover such as new shoes or haircuts.

'It is just too much, you know when... do you know what right, I don't even want to be. this is no lie right, obviously it would be lovely to be rich I just want to be stable you know, like so when my son comes in from school and goes mum look my shoes are broke, I need a new pair, I can say I will get you a pair in town. I can't do that, I have to say you will have to wait until I get paid and then I will get you another pair. Can I just have a haircut? Yes, when I get paid you can have a haircut and that is how it is. And it is shit, as a mum, especially as a mum.'

Client, London

Low-pay incomes are common within the participant group that are also reliant upon welfare benefits. But the cost of living was felt by all participants. They had already noticed the prices of food and other necessities go up considerably.

'Food prices. Our cat food has gone up from £4 to £6.25.'

Client, Port Talbot

But there was also an anxiety about the impending energy price rises that had been highly advertised and debated within the press (August – October 2022).

'The rise in electric prices and gas and everything, fuel.'

Client, Port Talbot

In response, participants were looking at alternative ways to manage their expenses as well as utilising illegal lenders. One participant told us how they use rental services to get electronic goods as an alternative to purchasing them.

'So we rent goods which is something you might want to look in to, that can get extortionate at times you know like we rented our son's... one of our son's Christmas presents just so we could get him an Xbox and our fridge, white goods, TV...'

Client, London

Whilst this was an option open to some, with different affordability assessments on HP versus unsecured credit many still preferred to turn to illegal lenders to manage their finances. However, they were keen to point out that they were not overindulgent in the amount they were borrowing. They just borrowed what they needed to keep financially afloat.

> 'You are just taking the money that you need, especially when you're in situations like I was do you know what I mean? The fuel and energy bills and all of that like people will be using it more often do you know what I mean? Erm and shop loans and that, putting money for shopping.'
>
> Client, Preston

The inevitable part of borrowing money is that people start to accrue and build debt. Often this debt had already occurred prior to illegal lenders. As this participant explains, when their energy bills doubled, they began to slip into debt with their energy provider.

> 'They know I am struggling with debt and obviously the electricity has gone up by 55% or something, 55% it went up and I was like £54 a month and now I am £111 a month and I just have not been paying it because I am like what is the point? So I am like in £388 debt with Scottish Power so I know... then I keep on getting these letters and face to face appointments, but they will never show up. I try and phone them, they don't even answer their phone.'
>
> Client, Glasgow

Debts are often not viewed as a priority by the participants as they do not meet an immediate need such as providing food.

> 'There is a lot of debt, and it is building up and there is... what I get from Universal Credit literally pays my electric, gas and my food, literally I am now... and my children need things, it is not... it is just there for you to survive isn't it? Universal Credit, do you know what I mean?'
>
> Client, Preston

Some participants have reached out for help with debts in the past and managed to enter into IVA/PTD agreements or have gone on to file for bankruptcy. The advice given at the time was that she wouldn't be able to obtain any credit for five years, but she managed to start getting credit again after two years and ended up back in debt.

> 'I went to Citizens Advice because obviously it was quite out of control, they were good. They phoned all the companies up and explained and then at that point she tried to do a payment plan, it just wasn't feasible so that is why bankruptcy was put in place to give me a fresh start. You see within two years I was told I wouldn't get anything for five years, it was like two years, and I was back doing it again, running it back up because I just... I just didn't know how else to manage, you know.'
>
> Client, Glasgow

Credit for many of the participants plays a key role in the management of day to day expenses, regardless of the standard of lifestyle the participant maintains. Without access to credit, the participants became more reliant upon illegal lenders, or charity, which as this lender shows, the illegal lenders are prepared to give to maintain the protection of the community.

> 'Yes I mean even during the pandemic we were reaching out to everybody just by WhatsApp and saying look if anybody is struggling, please there is an anonymous number there text us, let us know what you need we will come and just drop it off, no cameras, no pictures, no names, you know if you need bread, milk, groceries, whatever you may need, if anybody is struggling, even if it is just time or a cuppa tea we were offering that to the community and there was a few people that did reach out but that was difficult circumstances you know?'
>
> Lender, Glasgow

The picture that is built of illegal lenders is often one of violence, harassment, and exploitation of people in vulnerable circumstances. Whilst some lenders do resort to these tactics, many lenders report that it is not in the business's best interests to do this anymore.

As communities grow larger, the tight knit nature that used to protect illegal lenders is slowly breaking down. People are more likely to go to the police, and illegal lenders are aware, particularly in England, that prosecutions are taking place.

Therefore, illegal lenders are now taking up more responsible positions within the community, offering help and winning the favour and loyalty of the community through helping rather than ensuring payment through threats and violence.

As the cost of living crisis deepens, it is likely that illegal lenders will remain in a position to lend to those who have been excluded from other forms of credit and are in need whilst also portraying themselves as respectable business people within the community who just want to help.

Appendix – Methodology

It is extremely difficult to survey individuals or households about the subject of borrowing illegally. Some may not realise that they have been using unlicensed lenders; some may not care; others may be reluctant to say that they are borrowing in this way for fear of stigma or recrimination.

To assess the current scale and trajectory of illegal moneylending in the UK, an examination of the lived experiences of those who are engaging in obtaining credit from unregulated/illegal moneylenders is a crucial starting point.

To take a comprehensive look at the lives and experiences of those who have borrowed money from illegal lenders, **this study conducted surveys, individual and familial/friendship group interviews, and held more formalised focus groups within stakeholder organisations with people who had been identified as borrowing now (clients) or in the recent past (at risk) from illegal lenders.**

Sample frame

Within this study, we selected four separate geographical sample frames across the UK: **South London, Preston, Glasgow, and Port Talbot.** allowing us to hear from people who lived in rural, and coastal areas as well as a small, medium and large cities across the UK. However, due to practical constraints, and after discussion with the Northern Ireland IML team we did not select a sample frame within Northern Ireland.

The qualifying criteria for participants within these sample frames was that they had to have current or previous experiences of borrowing money from illegal or unregulated lenders.

This study records the experiences of a group of people, not a representative sample of people, who had borrowed from an illegal lender, we did not verify or check the illegality of the lenders used. As such the sample consists of participants who identified themselves as knowing, or at least suspecting, that they had borrowed money from an unregulated or illegal source.

This is a purposive sample where respondents are sampled because of their experience in dealing with illegal money lenders. A general sample of the UK would have given us insight into the percentage of the population engaged with illegal moneylenders, and a separate Fair4All Finance commissioned report is undertaking such a survey. We make no attempt to attribute a figure or a number of people.

Purposive sampling was selected to ensure that the data gave insights into client's experiences, motivation, total debt and financial decision making.

To ensure maximum uptake, we financially incentivised interview respondents in recognition of their time given to the project. As such **we were able to gather 229 qualifying survey completions** (after removing incomplete data) and qualitative interviews with 79 people. As the survey led to some follow-on interviews, **the sample size for the whole of this study is 287 borrowers, and 8 lenders.**

To give a comparison in sample sizes to other studies on illegal moneylending, the 2007 study 'Money-Lending and Financial Exclusion' [61] conducted a survey in Ireland to 'estimate the extent of money lending and to establish the profile of the typical money-lender client'.

This had 253 respondents. 182 had a relationship with illegal money lenders, and 89 were currently borrowing from illegal money lenders. 21% of their study had not borrowed from illegal lenders ever. Whilst the 2019 'Loan Sharking: Changing patterns in, and challenging perceptions of, an abuse of deprivation' study[62] conducted analysis of IMLT records from England between 2011-2017, analysing 753 victim's statements.

The 2007 'Money-Lending and Financial Exclusion' methodology is most like this study, in terms of data collection methods, the sample is biased towards unemployed benefit claimants (as the survey was conducted at a post office on unemployment and child benefit payment days).

When those who have no experience of illegal money lenders are taken out, as well as non-responders, the remaining sample that is comparable to this study is 182. The 2019 'Loan Sharking: Changing patterns in, and challenging perceptions of, an abuse of deprivation' study[63] is much larger, with 753, however the methodology is accessing and analysis of existing records of people who have reported issues with their money lender to the IMLT, it also spans a period of six years.

It is worth noting that <1% of the respondents in this study have engaged with the IMLT.

Using these previous studies as examples of sample size when assessing the experiences of illegal moneylending, we can determine that **this study, whilst not a representational sample, is a sizeable sample for a mixed methods study that only includes people directly engaged in illegal money lending**, and the only study that also includes qualitative interviewing of the money lenders themselves.

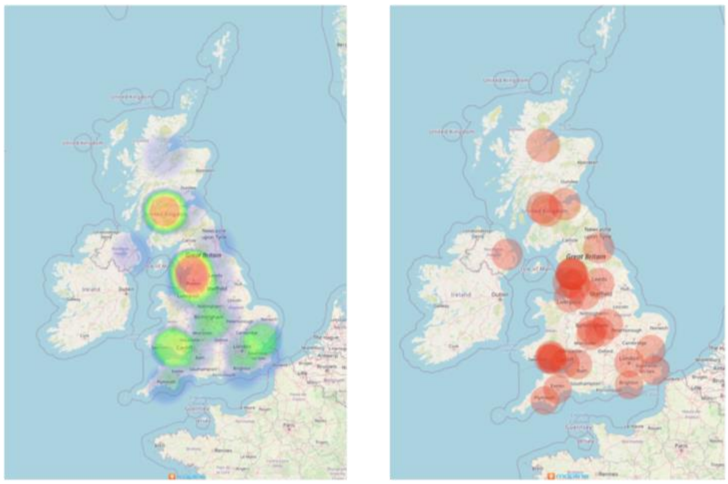
Demographic of the sample

The participants in our research study lived closest to our sample frames, representing the following split by nation. England 70%, Scotland 19%, Wales 11%, and Northern Ireland 1%. It is not nationally representative, but resources made it impossible to extend the survey geography further.

---

[61] Byrne, Noreen and McCarthy, Olive and Ward, Michael, Money-Lending and Financial Exclusion. Public Money & Management, Vol. 27, No. 1, pp. 45-52, February 2007, Available at SSRN: https://ssrn.com/abstract=959521 or http://dx.doi.org/10.1111/j.1467-9302.2007.00554.x
[62] Loan Sharking: Changing patterns in, and challenging perceptions of, an abuse of deprivation' report, Saunders (2019)
[63] Loan Sharking: Changing patterns in, and challenging perceptions of, an abuse of deprivation' report, Saunders (2019)

Figure 25: Geographical distribution of survey respondents



Heat map of respondents   Respondent locations

The gender of the respondents was split between 58% male, 41% female and 1% non-binary. This is similar across all sample areas, with Scotland the only exception, where there were more female respondents (52%) than male (48%). The sample's ethnicity is overwhelmingly white British (92%). This is higher than the UK average (82%) but mostly in line with Scotland (95%) and Wales (94%)[64]

We did interview an illegal moneylender from the Asian community in Scotland who described the way he lent money as a closed cultural practice.

'In a lot of communities, but especially in the Asian communities, there is a lot of pride involved as well, you don't want to be seen as that person that is struggling and asking for handouts all the time. You know there is a little bit of...unfortunately there is a little...there is a lot of criticism towards that, but it is something that I mean you can still borrow money from the bank when you want to buy a house you know it is not everybody can get that kind of level of deposits and credit and stuff like that you know?

It is mostly family that we would lend to, family or friends that we know, that we know that the person you know we know where he lives, we know where the business is, we know where they work you know.'

Lender, Scotland

Unsuccessful attempts were made to access people from this lender's customer base and community, but as he describes above, there is a sense of shame and stigma and no interviews were forthcoming.

In his network, moneylending is not discussed openly, particularly with outsiders, and loans are kept

[64] Office for National Statistics - Ethnic group, England and Wales: Census 2021

between friendship, familial and faith groups. He offered to help us access the Sikh community, but ultimately the community was not keen to discuss this issue openly.

> 'I have obviously got access to the local Gurdwara which is a Sikh place of worship and you know we have had like, you know, recruitment agencies come from like the RAF and the army and Police and they have done seminars and they have done recruitment projects within the communities. We have a very good network and I am just trying to think.
>
> ... I don't think this would work because it is quite a personal thing, but in the past we would send an invitation to all of the community via a WhatsApp group or a social media message, inviting everybody to an event and saying that this person is going to be doing a talk and come down and join in. **But when it comes to finances people are very reclusive and I don't think they would open up to guys in front of everybody**...'
>
> Lender, Scotland

This demonstrates how closed communities can still have issues that require borrowing money from illegal moneylenders, but the closed nature of the community means that **teams like the IMT will struggle to get intelligence or offer support within such closed communities**.

Within the sample, we can also see that more men engaged in illegal moneylending at a slightly younger age on average, but as the demographic data shows, a small minority of women were engaging in illegal money lending whilst under the age of 18.

Across all participants in our research 56% were employed, with the majority self-reporting gross annual earnings of between £15,000-£35,000. This sample has a higher representation of unemployed due to sickness and/or disability than the general UK population.

The demographics of the overall sample show that **those who engage in borrowing money from illegal lenders share similar demographics to the UK population in relation to gender and ethnicity. However, they are more likely to be unemployed** than the population as whole.

Research methods

To explore illegal moneylending in the UK, a research design was constructed within the four geographical sample frames that sought to capture as many experiences as possible, whilst also collecting rich qualitative narratives of individual's experiences in a mixed methods approach. The methods used were:

- Online survey (also printed for accessibility reasons),
- In-depth semi-structured interviews
- Focus groups.

Survey

The **survey ran from June 2022 to December 2022**, after ensuring the respondent met the qualifying criteria gained 235 complete responses. The survey questions focused on understanding the financial decision making of individuals who have engaged in illegal money lending.

The survey focused on their experiences of obtaining credit, how much debt they were in, and who they borrowed money from and why they had borrowed from an illegal lender.

The survey also addressed the way in which the respondents prefer to conduct financial transactions, addressing app and website usage, as well as financial product preferences.

The survey is a self-reported victim survey. The qualifying criteria for participants was that they had to have current or previous (past three years) experiences of borrowing money from illegal or unregulated lenders.

As such, **most survey respondents were interviewed in person or by phone** after seeing an online link, with researchers asking qualifying questions and follow up clarification to ensure that they had engaged in illegal lending, rather than simply borrowing form a doorstep lender or other form of legal credit.

Victimisation surveys capture the experiences of people who are not necessarily present within official statistics. This means their experiences may never be heard or understood, giving the false impression that crimes or harmful behaviour does not occur.

We know many crimes go unreported to the police or, in this case, the respective Illegal Money Lending Teams (IMLT). These surveys are important to help understand, quantify or simply reveal that there is a 'dark figure' hidden from the authorities view.

This study uses a targeted victimisation survey, which means those who were invited to answer the questions all self-reported having borrowed money from an illegal lender sometime during the last three years.

Self-reported victimisation surveys, when targeting a specific population such as those who have borrowed money from an illegal lender, are considered a purposive sample - they give us a wider understanding and contextualise the interviews gathered in this study, but they cannot be generalised as the experiences of the general UK population.

In this type of survey, participants can choose which questions they answer, as such, when we display the data in this report, these are representative of the answers received and not all participants answered every question.

The sample used in this study consists of participants who identified themselves as knowing, or at least suspecting, that they had borrowed money from an unregulated or illegal source.

The figures in the ' Demographic of the sample' section demonstrate the geographical areas that were covered by the survey data. More data was collected within the sample frame areas, but as the survey was available online as well as on paper, we gained responses from outside of the sample areas through snowball sampling, with respondents sharing the online survey link with their friends to also complete. The survey link was also shared on social media such as Facebook, LinkedIn, and Twitter.

Interviews

61 interviews were undertaken with people who identified themselves as having interactions with illegal money lenders as a client, either in the past three years or they are still a current client. These interviews were semi-structured in nature, following a similar line of questioning to the survey, but asking additional questions to contextualise and add narrative to the survey data. The interview guide is listed in the appendix.

We also **completed 8 individual interviews with former illegal money lenders**. We asked them about their business practices, including how many customers they had, how they advertised, how much they offered to borrowers and their lending terms, the methods of debt collection, and why they remained unregulated rather than becoming legitimate moneylenders.

Focus groups

One of the aims in this study was to engage with key stakeholders that support borrowers who have obtained credit from illegal moneylenders. We had planned to arrange focus groups to capture a range of experiences from those who have identified illegal moneylending as an issue to them and are in touch with different forms of services, such as addiction, mental health, housing, and other forms of support services. In some locations this worked well, and we ended up completing 6 full focus groups.

For instance, **in Scotland, interviews appeared to point to a link between illegal lending and addictions such as alcohol or drugs. When we approached services to work with them on creating focus groups, they were very helpful and gave us access, support, and shared their experiences of dealing with illegal money lending in the community**.

However, in other places, support services were less knowledgeable about illegal lending in their communities and acted as gatekeepers, suspicious of the researcher's motives, preventing access to researching with certain groups. As such, most data came from interviews with individuals or familial groups, and the survey data.

Limitations

Collecting data this way met the aims of the research brief, where we wanted to gather a purposive sample of people who had engaged in illegal money lending within the past three years to understand their experiences (interviews and focus groups) and capture their demographics, spending habit, digital literacy, and borrower credit decision making (survey). However, the sample itself does have its limitations.

Taking a geographical case study approach means that this is not a representative sample of everyone in the UK who has engaged with illegal money lenders in the past three years. We could not collect any significant data from Northern Ireland, and even within England, Wales and Scotland there are areas that may have had significant differences in experiences and context that could not be captured.