

The Competition Commission (CC) has commissioned research to explore users' and agents' perceptions and experiences of home credit. This includes research by Andrew Irving Associates, an independent market research company, that was asked to conduct in-depth interviews with members of the general public who use home credit and with home credit agents. These interviews were with a limited number of people. The researchers tried to identify and understand as broad a range of experiences and views as possible. Because of the nature and size of the sample, one cannot reliably assess how widely such views are held and the findings cannot be generalised to the whole of the user population or to all home-credit credit suppliers. The CC has commissioned a separate large-scale survey for that purpose. The present report is being made available by the CC for general interest. That the CC is doing so should not be interpreted as implying that the CC is necessarily in agreement with any particular point in the report.

COMPETITION COMMISSION

Home Credit Market Inquiry

Research Report April 2005

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I. INTRODUCTION

1. Background & Purpose

The Office of Fair Trading (OFT) has referred the home credit market to the Competition Commission for further investigation. This market reference follows a ‘super complaint’ from the National Consumer Council (NCC) and an initial OFT study into the sector. The Competition Commission wishes to identify whether any features of this market distort, restrict, or prevent competition and, if so, what remedial action might be taken.

For the purposes of the terms of reference, “home credit” is defined as *“the provision of credit, typically small sum cash loans, the repayments for which are collected in instalments (often weekly or fortnightly) by collectors who call for that purpose at the customer’s home”*. The terms of reference also state *“For the avoidance of doubt, ‘home credit’ includes the provision of shopping vouchers, hampers and other goods on credit when these are used to attract customers for cash loans, and ‘small sum’ does not imply any defined upper financial limit”*.

A recent study estimated that there are about 3 million customers of licensed moneylending companies and that most customers are women.¹ It is believed that customers are generally of lower than average income and mainly in social groups C, D and E. The main providers of home credit are Provident Financial, Cattles, London Scottish Bank, S&U and Park Direct Credit. Most companies interact with their customers through their agents. Agents are typically self-employed, often women working part-time, and will often live in the communities in which they operate.

The overall purpose of this research was to understand how competition in the home credit market operates from both the customer and agent perspectives.

¹ K Rowlingson, *Moneylenders and their customers*. Policy Studies Institute 1995

2. Research Objectives

More specifically, the following objectives have been identified:

- i. To explore, establish and understand the factors which drive and influence customer choice of supplier, including:
 - reasons for taking out a home credit loan initially and for continuing to use this type of credit;
 - factors influencing choice of home credit providers (including role of price);
 - customers' understanding of their own product and of the alternatives in the market.
- ii. To explore and assess the extent to which home credit customers have access to other credit options and their perceptions of the relative attractiveness of these options.²
- iii. To find out what credit options might be available to home credit customers within their locality and to assess the competitive impact of small local suppliers of home credit.
- iv. To explore the extent to which customers switch home credit suppliers (or use multiple suppliers).
- v. To find out whether customers perceive there to be barriers to switching and the prevalence of the market features identified by OFT as barriers to switching, such as rollover and step-up loans, loyalty to agents, etc.
- vi. To assess levels of customer satisfaction with the home credit market as a whole and various aspects of the offer such as the helpfulness of agents and value for money.³
- vii. To explore and understand the role of agents and the nature of their relationship with both customers and companies.

² A further (mainly quantitative) research objective is to identify any differences in the characteristics of home credit customers and non-customers. This objective was not within the remit of this qualitative study.

³ Home credit suppliers have submitted survey evidence indicating high levels of satisfaction amongst their customers.

3. Method & Sample

A qualitative methodology was adopted involving a combination of group discussions and face-to-face depth interviews, as follows:

- 2 exploratory group discussions with recent and current users of home credit
- 40 depth interviews with current home credit users
- 20 depth interviews with collection agents of home credit supplier companies
- 4 depth interviews with managers of home credit supplier companies.

Table 1: Sample Structure

	Total	South	Midlands	North	Scotland
<i>Group Discussions</i>					
Home Credit Users, female, (C2)DE, 21-34	1	1	-	-	-
Home Credit Users, female, (C2)DE, 35-55	1	1	-	-	-
Total groups	2	2			
<i>Depth Interviews</i>					
Home Credit Users	40	11	10	10	9
Collection Agents	20	8	4	4	4
Home Credit Managers	4	1	1	1	1
Total depths	64	20	15	15	14

For the depth interviews, loose quotas were imposed on the **home credit user** sample to ensure representation of:

- sex (male; female)
- age (18-24; 25-34; 35-44; 45-65)
- socio-economic group (C1; C2; D; E)
- current marital status or nature of relationship (single; partnered; divorced/separated)
- working status (working full/part time; not working/unemployed)
- home credit provider (Provident/Greenwood; Cattles/Shop-a-Check; S&U, London Scottish Bank; Park Direct Credit; Other).

In addition to the standard exclusions (market research/marketing, advertising, public relations and journalism), we also excluded from the sample those who were or who had immediate family working in:

- any financial institution, financial services company, or independent financial advice;
- door to door selling;
- the Competition Commission, Office of Fair Trading, or National Consumers' Council.

Respondents for the home credit user sample were recruited free-find using a screening questionnaire (annex 1) to check eligibility for inclusion in the sample.

Home credit managers and **collection agents** were recruited from lists provided by the Competition Commission. For the collection agents sample, quotas were set to ensure representation of the major players in the home credit market as well as the smaller providers.

Table 2: *Collection Agents Sample Quota (number of depth interviews)*

	Quota	
	Set	Achieved
Provident/Greenwood	4	5
Cattles/Shop-a-Check	4	3
S&U	4	4
London Scottish Bank	4	4
Park	2	2
Other provider	2	2
Total interviews	20	20

In addition to the depth interviews, observational research was also conducted involving researchers accompanying collection agents on their rounds. The rationale behind this observational research was that we would derive some ‘live’ indication of the supplier/customer relationship and how it operated, as well as getting impressionistic indications of customers’ situations and circumstances. A total of 8 accompanied visits was conducted, as follows:

- Birmingham: 2
- Southampton: 5
- Glasgow: 1.

Interviews followed a topic guide approved by the Competition Commission (annex 2). Where respondents’ consent was given, interviews were tape-recorded for subsequent reference and analysis.

Fieldwork took place between 1st March and 5th April 2005 in London, the South (Southampton), the North West (Birkenhead, Oldham), Midlands (Birmingham, Leicester area), and Scotland (Glasgow).

A presentation of the research findings was given to the Competition Commission on 19th April 2005 in London.

II. SUMMARY & CONCLUSIONS

This section seeks to summarise the main findings from the research. It does not purport to contain every point made in the Main Findings section of this report which contains the findings in greater detail.

1. Customers

The findings of this research indicate that the home credit customers in the sample were mainly the less well off, living in rented accommodation, and on low or irregular incomes. Few had savings. Other factors contributing to financial pressure on the household included disability, single parenthood, and the presence of children.

Typologies and Segmentation

Users of home credit can be classified as falling into four main categories in terms of their access to mainstream credit. First, there were those who have access to mainstream credit (e.g. bank loans/overdraft and credit cards) but choose **instead** to use home credit for various reasons. They might use home credit alongside other forms of borrowing. Secondly, there were those who know they are excluded from mainstream credit because of poor credit ratings arising from court judgments, repossessions, blacklisting, etc., and used home credit as an available, convenient, flexible option. A third category was those who have or have almost used up access to mainstream credit and who used home credit as a further line of borrowing and access to funds. Finally, there were those who were reluctant or afraid to approach mainstream credit suppliers and saw home credit as a ‘safer, easier, more friendly option. Although some in this category may have access to other forms of credit, they were often put off by the mainstream lenders, who were perceived as formal and likely to take a judgemental stance, and by the open-ended nature of their lending which they feared could get them into financial trouble.

In our opinion, the second category, viz. those who are excluded from mainstream credit, is a discrete segment and unlikely to have access to mainstream credit until and unless their poor credit rating or blacklisting is reversed. There may be a degree of overlap within the other three segments.

A number of sometimes overlapping types of home credit user emerged. These included:

- **Novices:** unsophisticated borrowers who needed a loan and accepted an offer of home credit which came across as more approachable than the alternatives;
- **Impulse Borrowers** who used home credit to finance a “live now, pay later” lifestyle;
- **Crisis Borrowers** who used home credit to tide them over an immediate need or financial crisis;
- **Occasional Borrowers** who used home credit to finance specific needs;

- **Home Credit Habitués** who continued using home credit out of habit and often to maintain their relationship with the collection agent;
- **Secret Borrowers** who hid the loans they took out from their family/partners;
- **Home Credit Leavers** who were looking to wind up their home credit loans by opening up other sources of credit.

Access to other forms of credit

Those who were or felt they were excluded from mainstream credit have, to a greater or lesser extent, access to other forms of credit. **Catalogues** provided an affordable means of budgeting for buying clothes and other items via weekly payments. Whilst expensive, in terms of interest charged, it was an accessible and available option. It was not usually a means of accessing cash. However, a minority were excluded from this form of borrowing because of unpaid accounts.

Amongst our sample, there were fairly extensive references to using a **pawnbroker**, either personally or anecdotally about their friends. This option was seen as a fall back, somewhat desperate means of raising short term cash when all else failed. Respondents acknowledged that the consequences of not being able to redeem the goods pawned, especially jewellery and other items of sentimental value, could be pretty painful.

Although the **Social Fund** provided a cheap, interest free means of borrowing, it was only available to those in certain defined circumstances and for certain items. For those who qualify for the Social Fund, the deduction of payments from benefit at source was both appreciated by some and resented by others.

Asking **family** and **friends** for financial help was not easy, although there was fairly extensive evidence of respondents' families having helped them out sometimes from quite sizeable debt. Further, asking family and friends for help could be problematic if the money could not be repaid.

A minority of respondents have discovered the **Credit Union** option and were enthusiastic about this new source of low cost loans. However, most were unaware of it and, for some, having to put money in first was a hurdle. There were indications that for some users it became another line of credit in addition to home credit and other means of borrowing.

Many of those in the sub-prime sector either were or believed they were excluded from **easy payment terms/high street shop credit** because of their poor credit rating. Thus they turned to outlets charging excessive rates that were prepared to deal with them, but at a rather high price. There were accounts of loans which never seem to end, penalties for late payment, etc.

Another source of borrowing was from **unlicensed lenders**. Most respondents claimed to reject this option but there was widespread awareness of the existence of unlicensed lenders and their modus operandi.

In the context of the limitations of other sources of credit, home credit could seem an attractive, available option.

Customers' introduction to home credit

Customers' introduction to home credit was often by personal contact and via family tradition, word of mouth, and coming across an agent, often at a friend's house. Others had responded to canvassing, door to door or in the street, or leafleting. Where the provider had approached the customer, the initial home credit offer was often for goods or vouchers that were paid for on a weekly basis. Alternatively, where the customer initiated the contact, the initial offer was usually a small cash loan.

Uses of home credit

Home credit was used to finance a wide variety of needs, some more pressing than others. Given that many customers came from low income households and had limited access to credit, unexpected bills and needs easily created a crisis that prompted the need for a loan. These crises situations included clearing other debts; paying bills or fines; waiting for benefit money to start (e.g. due to recent unemployment). Loans might also be used to finance Christmas presents, birthdays and holidays, and to spread the cost of day-to-day living (school uniforms/clothing, household goods, furniture, etc.). Over time, many have got into the habit of using home credit to finance their way of living.

Understanding of the home credit product

Customers seemed to have a fairly clear understanding of the basic home credit loan product. Most, however, were focused on the size and affordability of weekly repayments and, to a lesser extent, on the total sum repaid. Understanding and awareness of the interest rate or APR was limited and vague. There was little sign of customers seeking to compare the costs of home credit across providers. It was recognised that these loans were expensive, but most accepted it as a fact of life.

Appeal of home credit

Home credit appealed to:

- those who had grown up with it. For them it was a traditional, familiar, normal way of borrowing that was more approachable, safe and friendly than the alternatives;
- those who knew that they were excluded from sources of mainstream credit. For them, home credit was an available, albeit expensive, option;

- those who have used up other lines of credit and used home credit to finance additional borrowing;
- those for whom home credit has become a habit and who saw putting money aside regularly for home credit repayment as a part of life.

Positively, with home credit, customers received:

- a personal, friendly, approachable agent service that made borrowing an easy, straightforward process;
- a quick decision, usually positive;
- prompt delivery of money.

The product was tailored to customers' needs: an easy application process; weekly cash payments and collections; a fixed amount to be repaid; flexibility on payments; a convenient, discreet service. Customers also noted that they were usually shown a degree of respect by the collection agents not afforded them by many other credit sources.

Drawbacks of home credit

The main perceived drawbacks of home credit were twofold. It was widely recognised that the cost of repaying these loans was high but, for many of the financially excluded, there was no alternative. Secondly, the loans were seen as being too easy to get – the offer and ready availability of loans was very tempting to those on low incomes who were struggling to manage, especially the less financially strong-willed and disciplined.

The process of taking out further loans

A high proportion of customers were taking out further loans regularly. Nearly half of this sample had been taking out home credit loans for over 10 years. Many welcomed the offer of a further loan and were inclined to take it out.

There was some recall of agents seeking to whet customers' appetites for further loans. Customers often appreciated the offer and some were inclined to go along with an early renewal suggestion to get a larger loan sooner. Customers' interest in further loans could also be engaged by direct marketing from the lender.

Customers' relationship with agent

The customers' relationship with their agent varied greatly, but sometimes went back years; it was often mutually friendly and trusting. However, some preferred to keep some distance between themselves and their agent.

The “good” agent was seen as helpful and responsive; understanding and flexible; reliable and sympathetic. Where agents had helped customers out in a crisis or been sympathetic in difficult times, customers could develop degrees of trust and obligation towards their agent.

Factors affecting loyalty to home credit provider

Amongst those dealing with one home credit provider, loyalty was reinforced by a combination of factors including satisfaction with a known, trusted, reliable agent; lack of interest or inclination in seeking out or using unfamiliar alternatives; lack of inclination to switch loan provider mid-term.

Conversely, prompts for considering alternative suppliers or switching provider included:

- a need for access to another source of credit;
- being approached via door knocking/canvassing;
- being introduced to an alternative supplier by a friend;
- dissatisfaction with the existing provider;
- problems with meeting repayments.

Amongst those who had taken out loans with more than one supplier, their primary objective was to open up new lines of credit. There was little evidence of borrowers making a careful assessment of the cost of alternative providers.

2. Agents

The agents in our sample often came from similar backgrounds to their customers. Their experience as an agent ranged from 40-plus years to a few weeks. Most were seeking to arrange loans as well as collect repayments, but some (all from one firm) saw themselves as collectors only. Around one-third of the agents interviewed were full-time; the remainder worked part-time, sometimes in conjunction with other jobs.

More successful, longer service agents tended to be more enthusiastic about the agent role. They saw themselves as ‘helping people’ and they liked the varied, challenging, ‘people’ aspect of their job. They stated that many of their customers were not able to get credit elsewhere. They could also make a good living out of the job.

Agents’ perceptions of the agent role

Agents said that to be successful they needed to get their customers’ trust and confidence. This enabled them to maintain regular collections, help customers keep up to date with payments, and advise and guide customers regarding further borrowing. Successful agents sought to develop a good book of customers who paid regularly and kept on taking out loans, and also pointed them to new sources of business.

A minority of agents, although they enjoyed the job, were less at ease with the work. In particular, they were uncomfortable about the rates charged. They felt that they were taking advantage of people who were, or believed they were, excluded from mainstream credit.

More recent recruits, especially those taking over rounds that had been neglected, could find the work fairly demanding and poorly paid, especially if they inherited a high proportion of customers in arrears or who were not paying.

Remuneration deal for agents

Most of the agents were paid on a commission based on monies collected and rates ranged from 4.5% to 12%. Some companies also operated a complex points system to encourage agents to keep ‘quality’ customers.

Remuneration varied according to quality of round and experience of agent. More successful agents said that they had an income of around £20,000 per annum. Less successful, part time agents said that they were only earning £100 per week.

There were indications that the commission system rewarded agents whose customers renewed their loans earlier. It appeared that some agents earned extra commission when a loan was renewed before it was paid up. Thus, agents might have a financial interest in encouraging renewals as early as possible. Some felt more, and others less comfortable about this practice.

Some agents were also paid bonuses for getting “new doors”, i.e. selling loans to new customers that are not part of the same household as an existing customer.

Agents’ views on customers and their use of home credit

Agents confirmed that a large proportion of customers were drawn from poorer areas; were, or felt they were excluded from mainstream credit; and were living in rented accommodation.

Agents also observed that they had whole families of customers on their books who traditionally used this form of borrowing. Some of these customers could probably borrow elsewhere but stayed with home credit for reasons of conservatism and/or loyalty to their agent. Other customers turned to home credit because they were, or feared they were, excluded from mainstream borrowing.

Agents noted that a sizeable proportion of customers always paid regularly and on time. Others occasionally “missed” payments but tried to make it up later. Some were over-committed and struggling to keep up all their payments. However, a further segment seemed to be trying to exploit the system and avoid payment.

Agents reckoned that the best source of new customers was recommendation via existing customers. They found new customers generated via other sources, especially canvassing, often proved less reliable and satisfactory.

Acceptance of new customers and amount loaned to them

Typically, agents sought to test out new customers by giving them small loans. If they kept up payments satisfactorily the further (larger) loans might be offered.

With new loans, a formal application process was usually undertaken, to a greater or less degree, involving forms, evidence of address, and sometimes credit checks. Sometimes, more experienced agents also recognised that, to some extent, they relied on gut instinct when offering or arranging (further) loans.

Charges for loans

Managers and agents confirmed that they had standard rates which were offered to all customers. Different providers had slightly different rates and repayment periods.

Agents observed that customers' primary focus was on getting the loan and the size of weekly repayments. To a lesser extent, they might take on board the total amount repaid. Agents noted that customers were not interested in APRs and their own top of mind knowledge of APRs was sketchy at best (this does not imply that agents failed to inform customers of the APR on loans).

The process of lending more money to existing customers

Since they worked on a commission basis, agents were very much aware of the need to keep existing customers on their books and get new customers.

Agents were prompted to start the process of getting their customers to take out further loans by messages in their book and by managers at weekly meetings. Some agents claimed that their managers expected them to encourage customers to borrow more. Some agents believed that they had a better feel for customers' capacity to take out and repay loans than the company generated advice. They also said they did not want to overburden customers so that they were unable to keep up payments.

It was not entirely clear from agents' accounts what exactly happened when further loans were agreed, although it would appear that loan renewal before the previous loan had ended was quite commonplace. Sometimes it was encouraged by managers; or it was initiated by the agent sowing the seed in the customer's mind; and sometimes the customer was keen to get hold of more money.

Whilst some agents said that they postponed renewing loans or additional lending until towards the end of the term, it may be that the combination of pressure from managers, higher commission and requests from customers might encourage issuing of further loans or renewal of loans earlier.

Agents' views on competition

Agents and managers asserted that there were lots of players offering loans to their customers. However, most agents recognised that a proportion of their customers were unable or unwilling to get loans from mainstream credit providers. Home credit catered to such people as well as to others who liked the service provided.

Within the home credit sector, agents felt that there was a fair degree of competition for customers. It was noted that this was evidenced by customers taking out loans with more than one home credit provider, agents being followed by or meeting other agents on their rounds, and of agents being headhunted by other providers.

Not surprisingly, agents wanted to hold on to their own customers and shield them from the competition by being more responsive, sympathetic and helpful. That said, none could recall of customers seeking to play off one agent against another to get a better deal, or bargaining with their agent to get better rates. However, there were limited indications that independent home credit providers might be competing on rates by being more selective about whom they took on.

3. **Conclusions**

Choice of home credit supplier

Customers' initial introduction to home credit is often via family or personal introduction, but also via door knocking/canvassing, advertising, via the internet, etc.

Across our sample, there is no evidence of customers shopping around for their first loan. Rather, they take the option offered to them when the need for a loan arises.

When it comes to taking out further loans, most customers seem to stick with their existing supplier for reasons of convenience and familiarity, unless they are unhappy with the service.

There is little evidence of customers shopping around on price across suppliers. Their primary concern is the availability of a loan and the affordability of the weekly repayments.

Customers appreciate the assistance, consideration, flexibility and support provided by agents. This inclines customers to loyalty and staying with their preferred agent.

Customer categories

Customers fall into four broad categories. There are those who have access to most other credit options who choose to use home credit instead of or as well as other credit options. Secondly, there are those who are reluctant or afraid to approach mainstream credit suppliers and see home credit as a more approachable option. A third category have almost used up access to mainstream credit options and use home credit as a further line of borrowing. Finally, there are those who have a bad credit rating because of court judgments, repossessed homes, etc., or who have been blacklisted and are thereby excluded from many mainstream options (bank, credit and store cards, shop hire purchase). They may be able to get credit from catalogues, the Social Fund, Credit Union, premium rate retail outlets and pawnbrokers, as well as home credit.

However, all can, to some extent, look to help from family and friends.

Competition at a local level

Customers have some more or less vague awareness of or contact with the other providers in the area.

Provident, Shop-a-Check, London Scottish Bank, Park Direct Credit and S&U are the main providers, which are mentioned, but there is usually also some recall of smaller providers. In general, customers know about the providers they deal with or have dealt with in the past. Perceptions of providers largely reflect their relationship with the agent.

There are some indications that local independent home credit suppliers charge marginally lower rates but are also more selective in who they take on.

Switching: costs/barriers

In general, loans are taken out over relatively short periods so customers are more likely to think in terms of paying off loans rather than trying to switch suppliers.

There are strong indications that, over time, customers develop strong relationships with agents that make them feel it would be easier, more convenient and “safer” to stay with a known and familiar provider.

Encouragement from agents and providers to renew loans or take out further loans before they are paid off helps to ensure that customers keep on borrowing and keep in the habit of making regular payments.

Customers can find it hard to pay off loans because all too often the need for a further loan arises.

Customer satisfaction

High reported levels of customer satisfaction with home credit may reflect customers’ positive relationship with agents who provide a helpful, friendly, supportive, and flexible service. It also reflects the fact that providers lend to customers to whom other credit suppliers will not lend, and that customers feel a degree of gratitude because home credit loans have got them out of trouble.

Underlying this, there is some resentment about the high cost of home credit loans and not being able to get cheaper loans available to others via mainstream credit. There is also some concern from customers about the burden of the debt.

III. LIMITATIONS OF THIS RESEARCH

The research findings provided in this report are based on qualitative interviewing conducted amongst home credit customers and agents and managers working for home credit providers.

Fieldwork was carried out according to the Market Research Society's Code of Conduct. Specifically, respondents were assured that their anonymity would be protected. In our experience, this helps to ensure that respondents participate openly and co-operatively.

With small scale qualitative research of this type, it should be emphasised that whilst the findings seek to represent the information given to us accurately, they are based on fairly small samples. We do not seek to provide a definitive account of behaviour and attitudes that might prevail.

It is, however, likely that the main findings which emerged consistently across the different sample segments are likely to be replicated in further research, be it quantitative or qualitative.

In reporting on these findings, we took the view that there was no purpose in naming different home credit providers. Likewise, we have sought to avoid identifying any agents participating in the research. In this way we have sought to provide a picture of how home credit operates without mentioning any names.

IV. MAIN FINDINGS

In reporting the findings we have used terms such as ‘a few’, ‘some’, ‘most’, etc. These terms are used to give an indication of the strength and prevalence of different viewpoints. However, they should not be read as signifying a quantifiable measure. ‘Few’ may be used when reporting the views of a relatively small number in the overall sample, whilst ‘many’ may be used for the views of several respondents within a small segment.

1. The Home Credit Customer Viewpoint

1.1 Background Observations on the Customer Sample

Only a small minority of the home credit customers in our sample had any savings. (It should be appreciated that when these respondents referred to ‘savings’ these could be rather paltry amounts.) Predominantly, they were living in rented accommodation but a minority were owner occupiers.

Many came from low income households and were either working part time or with an irregular income (e.g. self employed builders, painters/decorators, etc.) or were on benefit. There were also instances of failed relationships and single parenthood, and disability in the household. Often there were children in the household, sometimes quite large families.

For many, especially those living in council estates or social housing areas, home credit represented a traditional, familiar and “normal” way of borrowing money.

*“Just about everyone on our street has got a loan with XXX.
You can see the agent going to nearly every house.”*

(Female customer, London)

Underlying this behaviour lay some reluctance to approach mainstream (formal) credit providers who, it was feared might reject their requests. Some of this apprehension came from previous experience of having been rejected; others tended to assume they would be turned down. In this context, home credit often seemed like a relatively friendly, approachable, safe, and familiar option.

“I signed a form once [for a store card] and they said no. That was an embarrassment so I won’t do it again. I got knocked back so I wouldn’t. At the time I was in a really good position to have a store credit card too. I was gutted.”

(Female customer, North West)

1.1.1 Types of Home Credit Users

Users of home credit fell into four broad categories. There were those who had access to mainstream credit (e.g. bank loans/overdrafts and credit/store cards) but chose to use home credit for various reasons – familiarity, relationship with collection agent,⁴ household budgeting, etc. They might use home credit alongside other forms of borrowing.

“I have one [home credit loan]. I’ve got a [name of loan] which is the big one. Have it and put it in the bank and then carry on paying back each week. It’s my way of saving. ... I’ve got a credit card. If I need to I use it and then we just pay it at the end of the month. I don’t do like you pay so much every month. I don’t do that, it’s just paid off. I won’t get into a lot of debt, I don’t like doing that. ... I’ve got me account [bank], I’ve got me hole in the wall card, I don’t use cheques and things like that. ... I’ve got a fridge/freezer, that’s on one of these buy now pay later, but it will be paid by the time it’s due.”

(Female customer, South)

For those who **knew** they were excluded from mainstream credit, home credit was known to provide an available, albeit expensive, borrowing option. Exclusion from mainstream credit could be for a variety of reasons: poor credit rating, blacklisting, and being unemployed/on benefit. One young respondent claimed that because she had never borrowed before she had no credit rating and was, therefore, unable to borrow from mainstream lenders. She had taken out a small home credit loan in order to get a credit rating and used the loan as holiday spending money. Another respondent found that the address of the property she bought had been blacklisted.

“I hadn’t got any credit history and I found it hard to get credit. I went to my bank and because I’m only working part time they didn’t really want to give me anything because I hadn’t got any credit rating. They just said no. They don’t tell you why, but she said if you haven’t got credit you haven’t got a rating.”

(Female customer, Midlands)

“I couldn’t get a bank account because I brought a mate to live with me for a while and she did a lot of fraud in my name which I was taken to court for. And although my name was cleared it was never cleared with the credit people. She done 20 grand’s worth.”

(Female customer, South)

⁴ The relationship between the customer and the collecting agent is discussed in more detail later in section 1.3.1 (pp. 38-39)

“They target people who they know ... not who they know, but the sort of people who can’t get a loan elsewhere.”

(Female customer, South)

A further segment, which may possibly overlap with the above, were those who had used up other lines of credit such as bank loans, credit cards, etc., and turned to home credit as a further source of borrowing.

“I’ve got a credit card with it but you can’t do nothing with it. It’s full up.”

(Female customer, South)

Finally, there was a segment who were reluctant or afraid to approach mainstream credit suppliers. They saw home credit as a safer, easier and more friendly option. Typically, they were put off approaching mainstream lenders because of their perceived formality and judgemental stance. They were also frightened of being offered or given open-ended credit which they feared would tempt them into getting into trouble.

“I’ve seen the trouble it causes, it’s too much of a temptation. I’ve seen the trouble my son got into, he’s still paying it off now and he made himself very ill over it. So no way! The more you buy on these credit cards, they just whack up the limit straight away, don’t they.”

(Female customer, Midlands)

1.1.2 Sample Segmentation

We put forward the following sample segments. They are not mutually exclusive but indicate the range of different types of home credit user.

Novices were unsophisticated borrowers who needed a loan for various reasons, e.g. for a car, and accepted the offer of home credit which came across as more approachable than other sources of credit. They had probably not really considered alternative sources.

“I was just in one day and there was a knock on the door and I had been thinking about getting a car but I didn’t really want to go through the process. I didn’t really want to wait and save up so I just thought, ‘aye, go for that’. I suppose if I’d thought about it beforehand a great deal I probably could have gone down the bank and got a loan from them.”

(Male customer, Scotland)

Impulse Borrowers were using home credit to finance a ‘live now, pay later’ lifestyle and using loans for non-essential items where the impulse to buy might come at certain times of the year. Some had access to other forms of credit but others did not.

“The vouchers that they give you, you can go into a lot more shops than what you could a few years ago, so vouchers or money, it doesn’t really make a difference. Vouchers or money would do as long as we get the kids Christmas presents, it doesn’t really matter.”

(Male customer, South)

Crisis Borrowers came across as a rather more hard pressed segment who were using home credit to tide them over financial crises, e.g. delays in receiving benefit money, the need to replace household goods such as washing machines, fridges, etc. Those in this segment often had irregular or low incomes and used home credit to help them get through lean times. They often have or feel they have no alternatives to home credit.

“When you’re desperate you turn to things like that [home credit]. I think they come in handy when you’re desperate for the money. I knew the interest rates were high, but I was desperate.”

(Female customer, Midlands)

“We tried the bank and got nowhere and this turned up and that’s why we took it up, it was the only option to me at the time.”

(Male customer, North West)

Occasional Borrowers used home credit in a fairly disciplined way to finance specific needs. For instance, one respondent needed money quickly to get her daughter home from abroad. She applied for the loan on the Friday, received the cash on the following Monday and had her daughter home by Wednesday. Occasional Borrowers made a point of paying off loans rather than renewing them, and some were using home credit as another source of credit alongside shop credit, credit cards, etc.

“My daughter was working as one of those holiday reps and there was a bit of trouble. I needed to get her home quite quickly. I needed like £350 so I went to the XXX on the Friday, got the money on the Monday and my daughter was back on the Wednesday. When that’s finished I won’t take another one out unless I need it.”

(Female customer, Midlands)

“I only use it [home credit] when I only really need it.”

(Female customer, North West)

Home Credit Habitueés originally started using home credit in hard times. They now seemed to be keeping up home credit loans, whether or not they were needed, apparently to keep up a relationship with their agent.

“I think going to the bank would be better but I think because I’ve always dealt with them [home credit loans] I’ve just kept them.”

(Female customer, North West)

“Guaranteed I wouldn’t put £25 in the bank each week. I’d find something. It’s a weird way of saving but it works for me.”

(Female customer, South)

“I don’t know what I’d do with that £25. Just buy different things!”

(Female customer, Scotland)

Secret Borrowers were a relatively small segment of those interviewed. These were people taking out home credit loans that partners and/or other family members were not aware of. For various reasons or motivations, it was important to them to hide the fact and purpose of the loan from their partner or family.

“My husband was the type that wouldn’t let you [have a home credit loan]. He didn’t believe in banks either. He used to have quite a lot of money in the house. He never knew [about loan]. He always wondered. He used to say ‘you’re a good housewife’. I never got a lot that I couldn’t pay it. I just always stayed within the limit. He was never there when the agent came. Sometimes he came in when he was but he thought he was the insurance man. I done that and he never knew, it never came to a case where I needed to tell him.”

(Female customer, Scotland)

Home Credit Leavers have managed to re-establish their access to mainstream credit sources, Credit Union, etc. They were in the process of winding down their home credit borrowing.

“I’m trying to get rid of them [home credit]. It’s the interest. I realise my ex was right! I didn’t agree with him the whole time I was with him but he was dead right. It’s much easier for me to try and save as much as I can with Credit Union and do it that way. It’s better for me and my pocket.”

(Female customer, North West)

“I think I’ve come to my senses on loans now. Because I had so many loans out last year, when I got a bank account they offered me a loan and first of all I declined it and then it came to a crunch where I couldn’t manage all the loans so I just got a bank loan and covered most of them and now I’m on an even keel sort of thing.”

(Female customer, South)

1.1.3 Respondents’ Perceptions of & Access to Credit

We explored respondents’ perceptions of a range of different credit options, from the mainstream (bank loans/overdrafts) to the more peripheral (unlicensed money lenders). We found that most respondents were aware of which options were open to them and which not; which they would consider and which they would not.

For many, access to a lot of alternative credit options was constrained by factors mentioned above, such as poor credit scoring, blacklisting, low/irregular incomes, unemployment/being on benefit.

Bank Loans

Most of the respondents in our sample had bank accounts which they used to pay their wages or benefits into. These accounts were often quite basic, cash accounts – few had cheque books.

Many claimed they were unable to get a bank loan because of their poor credit scoring or because they were blacklisted. Others were doubtful about their credit rating and reluctant to ask the bank for a loan for fear of being rejected. Some had asked for a loan in the past and been turned down. They had found this experience embarrassing, even humiliating, and were unwilling to risk a repeat. A few seemed to have been turned down for bank loans because of mistaken identity or a poor credit rating that was allegedly unjustified.

“You can’t get one [bank loan] unless you’re working or something like that.”

(Male customer, Scotland)

“I think it would be quite embarrassing getting turned down, not for any reason just because we’re not working. We own our own house, our own property, it’s just it would be embarrassing to be refused.”

(Female customer, Scotland)

Some were also reluctant to approach the bank because:

- they saw the process as intimidating and difficult, and likely to require a lot of form filling which they did not like doing;
- they expected to be rejected e.g. those on benefits or with irregular incomes suspected that their bank would not be prepared to lend to them.

“I just don’t trust them, I sweat when I am going into the bank.”

(Female customer, Midlands)

“When I’ve tried them I’ve always been knocked back because I’ve not been working. They’ve always asked what I want the money for and then they’ve said I’m not earning enough. I’ve never asked for more than £2,000 and they always say no.”

(Female customer, North West)

There was also a widespread belief that banks did not make loans for small sums.

“But they [banks] wouldn’t give you a loan for a couple of hundred quid, would they? They’ll only lend you thousands, I thought.”

(Female customer, London)

There was also a fear that a bank might offer them an over-large loan that they would not be able to repay, or that repayments would go on indefinitely with additional interest being added on to the loan. There were also concerns about additional charges being imposed when customers failed to keep up payments or defaulted on bank loans.

Many home credit customers preferred weekly payments because it fitted in with their budgeting systems, and monthly repayments to the bank were less appealing.

“You haven’t got control over it. It’s getting taken out of your bank and that’s that, whether you’re short one week or not. Too much commitment.”

(Female customer, North West)

Bank Overdraft

Even though they had bank accounts, most respondents had or believed they had no overdraft facility, especially those on benefit or on low incomes. Others were afraid of being tempted by an overdraft facility to spend up to their limit and then not be able to repay.

“I’ve got a very basic bank account so I didn’t even ask. I don’t know whether I could get an overdraft.”

(Female customer, Midlands)

“You learn through your mates’ mistakes in a way. People just keep increasing their overdraft and they just keep living on their overdraft and I think it’s too much of a temptation because it’s always there, whereas if it’s a loan then you know you’re paying it off whereas with an overdraft you think it’s more your money. I think it’s more of a trap that way.”

(Male customer, Scotland)

Some were aware that overdrafts were a cheaper option for borrowing money than home credit. But there was fairly extensive awareness that banks fined customers who went over agreed limits and imposed additional charges for non-agreed overdrafts. This could make the bank seem like a fairly harsh, unfriendly and expensive source of borrowing, especially to those who were less financially disciplined.

“I just feel there is too many chances of missing payments. Like you can get a charge for being late and a charge for going over your limit, so you’re talking about two charges for the one occasion. The charges really hit you.”

(Female customer, Scotland)

“I’d rather go to a home credit company than go to a bank because if you don’t pay the bank, if you miss a few weeks they just tend to send out all the threatening letters and everything all the time.”

(Male customer, South)

Strongly worded letters from the banks frightened and transfixed some customers. Rather than talking to their bank when they had problems they seemed to put their heads in the sand. We had two instances of young women taking out home credit loans to pay off their bank overdrafts because they were too afraid to try to deal with their banks.

Credit Cards/Store Cards

Currently, only a minority of our sample held credit or store cards. A larger minority had had credit/store cards in the past.

“I’ve had a credit card before. I just got a letter come through the door, I rung them up to find out a bit more about it, give them a few details and they rung me back and said yes, you’ve been accepted for the credit card. I suppose I abused it at the time. Being young ... I just abused it, really. I took the Mick out of them so it’s my own fault. ... They sent me a bill and I didn’t have the money at the time and I’ve never heard nothing from them since. I just snapped the card up.”

(Male customer, South)

Some had got into trouble with credit cards, finding it difficult to resist temptation to spend money on them. Having reached their limit, they then found it hard to pay off the balance beyond making minimum payments each month.

“My son got a Barclaycard. It was stupid – he was a student and they gave him a £700 limit. Well of course he spent it. Now he gives me £15, £20 a month to pay for it. It’s been a year and he hasn’t paid £100 off the total. £9 of it is interest. It’s terrible, it’s put me off the things. I made him cut the card up.”

(Female customer, London)

There were signs that unsolicited increasing of credit card limits had tempted some borrowers into running up very large bills that subsequently could not be repaid, which had adversely affected their credit rating. Some admitted more or less openly that they were up to the limit on their credit/ store cards and therefore found this line of credit no longer available. Others were unable to get credit cards because of their previous financial history.

There were a couple of instances of credit card holders informally extending credit facilities to their friends by letting them use their card to buy items over the internet, etc., and receiving payment for the purchases.

“I’ve got pals that use my credit card. They phone me up and say ‘you’ve got to get me this on your card’. That’s more for other people, my card.”

(Female customer, Scotland)

There was a general fear of credit card debt because cardholders could see that even though they were making the minimum monthly payments, interest kept on accumulating which made the debt very hard to pay off.

“This young lad at the bank he persuaded me to get one of their credit cards. He said for the sort of things I wanted the money for a credit card would be the best thing for me. Well, it was coming up to Christmas and I was watching one of them shopping channels and I was buying things on it thinking oh that toy would be for the grandson and what have you. And I soon got up to the £1,000 and I couldn’t have any more. ... That was the biggest mistake of my life getting that card because it doesn’t matter how long you pay it off every month it never goes down, you’ll always be owing them money.”

(Female customer, Midlands)

“When I had the credit card it took me quite a long time to pay off that. I just feel there’s too many charges for missing payments, like you can get a charge for being late and then a charge for going over so you’re talking about two charges for the one occasion, so I do find that those kind of charges really hit you. It could add up to 40 quid at a time that you weren’t expecting if you missed it like a day.”

(Male customer, Scotland)

Credit and store cards were contrasted with home credit where the amount that had to be repaid was fixed at the outset, and repayments remained the same even if the customer missed payments occasionally.

Catalogues

Catalogues were used quite widely across the sample. They were often positioned as a cousin of home credit and catalogue agents used their social and family networks to get orders and, sometimes, new customers.

Positively, the low weekly payments for clothes, electrical goods, furniture, etc., made them affordable and the collection by agents encouraged customers to keep up payments.

“It was easier to get the washing machine out of the catalogue and pay x amount per week because obviously we didn’t have the couple of hundred quid to lash out on a new one.”

(Female customer, North West)

“I’ve had catalogues before. That’s quite handy for clothes, whatever, because you can pay it off but I think that you end up paying more if you get it through a catalogue than you would in a shop. Still it’s handy.”

(Male customer, Scotland)

Whilst respondents acknowledged that this was an expensive way of buying items, weekly payments were manageable and affordable. Those who were acting as agents for catalogues claimed that using their discounts and commission, they could get fairly good deals for themselves.

“You feel as though you’re privileged because you can pay in instalments but it’s all hidden costs.”

(Male customer, Scotland)

“I run one, well, it’s just mum and a few friends. As an agent I can get 12.5% cashback and every now and then I get 20% off too. The last time, what with my discount and a deal they had going I got a washing machine for £169. You couldn’t do that in the shops.”

(Female customer, London)

However, some had over-committed themselves and wound up with unpaid debts and court judgements.

Pawnbrokers

The use of pawnbrokers seemed more prevalent in more traditional, working class areas such as Liverpool, Glasgow, and Feltham (London).

Pawnbrokers were seen as a traditional, old-fashioned option for accessing cash when hard up. Positively, pawnbrokers could provide ready money when no alternative source was available and were useful for raising small sums as a short term loan. A few respondents had pawned items such as jewellery and electronic games. Those who had used the service claimed it was quite pleasant and friendly.

“Yes, I go to a pawnbroker as well. I’ve just put my bracelet in XXX pawnbrokers. Only for two days. That’s handy if you need money at the time. I never ask for too much, though. I just ask for what I know I can go in and pay it back again, just for that day or the next day.”

(Female customer, North West)

“I’ve taken jewellery in, old stuff that I wasn’t that keen on anyway and just flogged it. I was between jobs and just sold a bit of stuff I didn’t really care that much about, it was just a bit of quick cash. The down side is you don’t get your money’s worth.”

(Male customer, Scotland)

Less positively, however, pawnbrokers seemed to have somewhat desperate connotations. There seemed to be fairly widespread awareness that people who used pawnbrokers were unlikely to get very much in cash for their items and if a borrower could not repay the loan the items pawned were forfeited. In one instance a woman pawned and lost her mother’s jewellery; in another instance, a man had to get a home credit loan of £50 to redeem his Playstation.

“I took all my gold jewellery down, including a really heavy gold bracelet that cost me about £250 and he just give me £25 for the lot. I lost it all, didn’t I.”

(Female customer, London)

Social Fund

For those who were eligible, the Social Fund was a useful source of additional funds to pay for additional items. However, the Fund was only available in certain circumstances and to certain people, viz. those on benefit and mothers with young children. Some in the sample had had or were currently receiving money from the Social Fund.

“You can get loans off the Social Security which are interest free, but it’s trying to get them. And when you do, if you want another loan then they say you can’t have another loan because you’re only allowed so much.”

(Female customer, North West)

“Social Fund is good if you can get it because you don’t pay interest, they take it out of your Social so it’s gone anyway before you get it and it’s paid off each week. We’ve had like the bed collapse because upstairs is a bit damp and mouldy so we’ve gone down, we put in for a Social Fund for that and they’ve given it to us for things like that. For things like that you don’t want to go and get with a home credit company because of the interest.”

(Female customer, South)

There were some complaints that loans from the Social Fund were only granted for very limited purposes, e.g. purchase of beds, mattresses, and only if it could be shown that items purchased were the cheapest available. One respondent who had been receiving money from

the Social Fund for several years noted that the application process was now much simplified and just required her to tick the relevant box indicating what the money would be used for, e.g. bedding, clothes, household equipment.

“I have it every year because my husband is registered disabled. It’s a new form now and you just tick the different boxes that you want the money for. I do household and clothing. If you apply in March or April you get a rise. It’s very good. You pay £17.44 off your benefit and they don’t charge no interest. There’s no way you can fall behind but they do limit you to what you can have it for.”

(Female customer, London)

Positively, respondents who had received or were receiving money from the Social Fund noted that the loans were interest free. Others rather assumed this would be the case. Also, repayments via deductions from benefit at source helped to ensure that the loan would be repaid.

However, some disliked the automatic deduction from their benefit because it further eroded their ability to budget and juggle the money coming in. Secondly, it was recognised that, unlike with home credit collection agents, they would have no scope for negotiating with the Department for Social Security about the amount deducted or whether payments might be skipped if they were feeling particularly hard pressed.

Family and Friends

There were frequent reports of their families helping respondents out, sometimes to repay quite sizeable debt.

“I got clamped last November just because I hadn’t paid some stupid speeding fine. It was about 6 o’clock in the morning, I had just got up and was going off to work and there were these two great big men come round bloody clamping the car. They were going to take it away and I needed it to get to work. ... In the end the good old mother-in-law paid for it, 800 quid it was, she paid for it.”

(Female customer, London)

It was generally agreed that it was not easy to be asking family and/or friends for help on a regular basis, especially if the loan could not be repaid. Whilst it might be acceptable to ask family/friends for a small, short term loan, e.g. £20 for a couple of days, it would not be right to ask for larger amounts over a longer period.

“I don’t like borrowing off my friends or anything. I mean, I’ve been offered a few times but there’s a little bit of pride involved in it.”

(Male customer, North West)

“I’ve got one friend where you could but not my family because my dad’s just come out of hospital with his heart. It’s not my scene, I’d rather have my own debt than borrow from family.”

(Female customer, South)

“You can’t keep asking. There’s only so many times you can ask then it gets embarrassing.”

(Female customer, London)

For some, family and friends were in a similar financial situation and so borrowing from them was not really a viable option.

Credit Union

Awareness and use of Credit Unions was confined to respondents in Glasgow and Birkenhead. This minority of current (and potential) users were aware that it offered low cost loans to members. Some also saw it as good that the repayments were made automatically.

“Brilliant. You can borrow three times the amount of what you save. For instance, at Christmas I got £800 off them. I pay £18 back off the loan because I was paying £20 a week anyway. If you take £18 out of the £20 I’m still saving £2. You don’t take what you’ve saved either. You can never borrow more than what you owe. But it is good – they only charged me £56 on the £800. Interest is £7 on £100. Brilliant.”

(Female customer, North West)

“According to my mates you hardly pay anything into it for the money you’re getting.”

(Male customer, North West)

“You can put £1,000 in and at 12 weeks you can ask for a £1,000 loan. But you’ve got to take shares in it. So £15 goes to your loan and £5 goes to your shares. The shares keep you actually in. My neighbour is with Credit Union. It’s her third one, she gets treble what she’s paid into it. Say she’s got £1,000 she can get £3,000. She’s paying in just £25 a week.

(Female customer, Scotland)

Having to pay money in to the Credit Union before it was possible to borrow was identified as a potential drawback or barrier. It was also seen as less personal and private than home credit, and less immediate. It was claimed that it could take two weeks to get a loan via Credit Union unlike home credit where the money could sometimes be received more immediately.

Examples of Credit Union loans taken out by respondents included £3,500 for a car and £1,000 for a holiday.

Outside of these two areas, most had yet to discover Credit Union as an alternative option. For those less aware of the Credit Union option, the name sounded a bit as though it was more like a bank than home credit.

In our opinion, Credit Union could be potentially attractive to some home credit customers if they were made aware of its existence and benefits.

Payday Loans

This form of credit was potentially only relevant to those who were working.

A few were aware of this means of accessing money in advance of their pay cheque. However, they were also aware that charges for this facility were quite heavy.

“Is that where you can borrow money against your pay cheque? I’ve not done it but I’ve heard they’re very expensive and they take off their commission straight away from the money they give you. I don’t know how much, but I think it’s probably quite a lot.”

(Female customer, London)

“Yeah, they take a commission though, 30% I think it is, something really silly.”

(Male customer, London)

Easy Payments/Shop Credit

Some still had access to credit via high street outlets.

Others appeared to be unable to get this form of credit from major retailers because of their poor credit rating, and thus turned to sub-prime retail outlets for purchase of consumer durables. It was acknowledged that these outlets charged very high interest rates for hire purchase credit. It was claimed that some of these outlets imposed penalties if payments were overdue.

“I’ve been paying for a portable TV and video together, plus a DVD player. It’ll be three years this Christmas, I’m paying forever. My payments are £28 a week. Say I haven’t got it by the Saturday, last week I did this, I didn’t pay Saturday, Sunday, Monday, so I went down and paid Tuesday and had to pay £65. They charge you £2.50 each day you’re late for each item. You pay more than double back. It’s awful, it really is awful.”

(Female customer, North West)

“With XXX [sub-prime outlet], when I’m not there he’s like a bit of an arsehole when talking to my missus. But then when I’m there he’s sweet as pie and says ‘okay mate, I will see you next week’ and that’s it. He’s knocked on the door when my missus hasn’t answered it because she’s busy with the kids, but then he will bang harder, he will just keep banging the door.”

(Male customer, South)

Unlicensed Lenders

This option was usually referred to as “loan sharks”.

Most said that they would not consider this option as they feared the consequences of taking out a loan with these operations. There were stories, sometimes drawn from television soaps but also second or even third hand, of people being put under extreme pressure to repay loans or make payments. There were also stories of loans constantly escalating if they could not be repaid.

“There’s an old bloke called Ted who’s one. He’s an old East End gangster. ... My mum had money off one once – it was extortionate.”

(Male customer, London)

“The way I got brought up, if you don’t pay these people, I mean it doesn’t matter what part of the country you’re in, if you don’t pay these people they get started after somebody. If you don’t pay you get done in!”

(Male customer, Scotland)

“I know a lot of people that have gone places like that but I wouldn’t ever do that. They are dangerous, they will smash your kneecaps in if you don’t pay.”

(Female customer, Midlands)

“I know people who have used them. They borrowed £200 and had to pay £50 back every week and had no food for four weeks. I know of three or four within a mile radius. You turn up and you’re given the money straightaway. It’s a lot of money to pay back and they want it back quick.”

(Female customer, North West)

“If I was desperate, if there wasn’t XXX [home credit provider] I’d use the pawnbroker before I’d use them. They’re the Mafia, they’re dangerous. I’ve seen it on the telly, they chop your legs off if you don’t pay.”

(Female customer, London)

Only one respondent admitted to borrowing from an unlicensed lender because she was no longer able to borrow from home credit providers. She had been recruited as a respondent because she claimed to have a loan with a home credit provider. However, it transpired in the course of the interview that she had not been making the repayments on her home credit loan. While, technically, she did have a home credit loan it had effectively become a bad debt, and the provider was no longer willing to lend her more money. This respondent emphasised that an unlicensed money lender **had** to be paid at all costs.

“You pay it back because you’re too scared not to. I’ve always paid it, I’ve never took a chance in not paying it. £20 a week for that one, I borrowed £200 and I’ll pay £300 back. There’s no credit checks or anything, it’s easy to go and get it if you need it. If you want it in a day you can get it in a day. It’s not a firm, it’s a person. I just needed money one day. I had no money and I had no shopping in. There’s no messing about with anything, it’s just ‘here’s the money, be sure you pay it back’.”

(Female customer, North West)

Whilst most respondents rejected the idea of borrowing money from unlicensed lenders they were not always clear how they would identify these lenders.

1.2 Attitudes Towards & Usage of Home Credit

1.2.1 Sources of Introduction to Home Credit

A majority of respondents were introduced to home credit via friends and family. In some families, taking out home credit loans was the normal thing to do. Respondents recalled their mothers having home credit loans and visits by the collection agent as part of their childhood experience. Some had parents and/or siblings who were also currently taking out home credit loans.

“My mother had [a loan with] XXX and my brother has one.”

(Female customer, Midlands)

“As long as I can remember. I mean, the woman who used to come and collect the money when I was a little boy, I used to think she was my aunty.”

(Male customer, North West)

“All my life I’ve known about them because of my mum. There’s always been people knocking on the door.”

(Female customer, North West)

“My mum had them all [3 home credit companies]. All my life we always had them all. There were five kids in a council house and that was how my mum lived. That was how she did Christmas and things.”

(Female customer, North West)

“Because my mum was with XXX he would come around and collect from my mum and then I asked him if I could get one and he said yes. He sorted it all out, I went down there and signed an agreement and everything.”

(Male customer, South)

“My neighbour got me into that. That was because I was going through a divorce with their dad and he left me with a big debt so I had to pay his debt off.”

(Female customer, South)

“A couple of my mates had done it before. There was a couple of them that mentioned the XXX guy. A mate of mine was paying off for his TV or something like that.”

(Male customer, Scotland)

“I actually said to my mum ‘how do you go about getting some vouchers and that’ because I just happened to be round there when she came and she said ‘oh, this is XXX, she’s the XXX woman’ and I just got speaking to her. It was quite easy.”

(Female customer, London)

“I grew up with it. You’d get the XXX at the door – us kids would go ‘Mr XXX is at the door’ and mum would be hiding behind the sofa! My mum still has a loan with them, my sister and my wife’s sister also have XXX loans. My brother lives in Somerset and he don’t but he’s a rich git.”

(Male customer, London)

“I started when I was 15. My mother dealt with XXX for years, that is why I got into it. I’ve always dealt with them since then and I’m 63 now.”

(Female customer, Scotland)

Word of mouth was another introduction to home credit when friends/family might suggest home credit as a means of solving a financial need or short term problem. Sometimes respondents might meet an agent on a round at a friend’s house.

Others had responded to door knocking or canvassing by home credit providers, e.g. canvassers approaching them direct either at home or, it was claimed, on the street. The offer of vouchers or a loan had come at the right time, when they had a need for additional money.

“XXX they come round the doors and they offer you vouchers, that’s how you start off with them.”

(Female customer, South)

“It was just calling round as far as I can remember, like a sales guy kind of thing. It was just ‘I’m from XXX, I’m going round the area, if you need a loan ...’ and it was just a case of it was handy at the time so it was good.”

(Male customer, Scotland)

“A chap came to the door and says we’re doing a survey, are you with any loan people? And I says I’m with XXX. He says if you start with us I can give you £100 vouchers, it was vouchers at the time, it wasn’t cash, it was £100 vouchers. He says I can give you that today and it was like £5 a week over a year.”

(Male customer, Scotland)

Others had received letters or leaflets from home credit providers or seen them at friends' homes and responded.

“They’ll come to the door or they’ll stop you in the street. It’s usually not money at first, it’s a £100 or a £30 voucher.”

(Female customer, Scotland)

“They come round to your door and it’s actually gift vouchers to get your interest.”

(Female customer, Midlands)

“The leaflet had come through the door. I think I just shelved it but it was there. I phoned the number on the leaflet, which was the rep for the area. She came out to speak to me and was back a couple of hours later with £100. That quick.”

(Female customer, North West)

In some instances, customers recalled that the *initial* offer was for goods or vouchers which were then paid for on credit. These initial dealings were then subsequently converted into cash loan arrangements. Some customers took the initiative and approached the home credit provider for a cash loan.

In some areas, customers recalled that there was a great deal of door to door activity inviting them to take up a variety of offers such as vouchers, hampers, children’s photographs, bedding and bed linen, and other household goods and appliances.

“It’s XXX who do the kids’ photos. They come to your house, they set it all up in your house, they then go away, come back with miniature pictures, go away, come back with frames and then go away, come back with the photos. For two photos it cost me £110 but I thought it was lovely. I paid them back £5 a week. It’s nice to have a few pictures of the kids.”

(Female customer, London)

1.2.2 Purposes for which Home Credit is Used

The initial home credit loan was used for a wide variety of reasons. Respondents recalled taking out a loan to sort out a financial crisis, e.g. clearing a bank loan; paying large, unexpected bills, fines, etc.; settling a Council Tax bill. In some instances, the financial pressure was because respondents were waiting for benefit payments to start when they

became unemployed or when there were problems with the administration of Working Families Tax Credits; sometimes it had arisen in the aftermath of a relationship breaking up.

“I took out £300, it was for the phone bill.”

(Female customer, North West)

“I had to get some money for the Poll Tax. They were threatening me and it’s the only one where they can do you. You can get sent inside for not paying that, so I had to.”

(Male customer, London)

“I was living with my boyfriend and I’d spent his car tax money on shoes, not realising the car tax was due. Then I realised but I couldn’t put it back. I panicked – I had to go and tax the car otherwise I’d have got found out.”

(Female customer, North West)

Other reasons given for taking out a home credit loan in the first place included:

- extra money for Christmas, birthdays and holidays;
- spreading the cost of day to day living, e.g. school uniforms, clothing, household goods/furniture, purchasing larger items.

“I get a couple of loans and that to do me over the Christmas period, the kids and that. It’s ‘dad can I get this’ and ‘dad can I get that’ and it’s ‘OK, we’ll see’ and that’s when you start feeling the pressure.”

(Male customer, Scotland)

“Coming towards Christmas, everyone feels the pinch a bit, so I have got like XXX and XXX before Christmas, mainly in like vouchers so that you know you can go and get the extra little bits. As the kids get older it just gets worse and you need like a little bit extra.”

(Female customer, London)

“Money was tight at the time with everything, bills and that, and I just got a loan for Christmas presents.”

(Male customer, South)

“I ended up buying a second hand car with it to get to and from work.”

(Male customer, Scotland)

“My mum was 60 last year and I wanted some money. It’s things like that. I wanted a party for her. I wanted to do something special for her, go out and get some flowers and things like that.”

(Female customer, North West)

Subsequently, many seemed to get into the habit of using home credit to finance their way of life. Loans were renewed fairly regularly to finance Christmas and special occasions, holidays, back to school and home improvements.

“The lady down the road borrows for silly things – DVDs and booze and electronics, luxuries.”

(Female customer, Midlands)

“When you’re young you are working all the hours God sends you to keep things going, and you want a radio, you want a TV, so you go to them.”

(Male customer, Midlands)

For some more habitual users, home credit loans eventually became part of the household financial management and planning. They needed the loans to live on or to pay off other loans. Not infrequently, this process was described as “robbing Peter to pay Paul”.

“I had a loan with XXX ... but then I was paying off YYY and I went to XXX and they said the most we would be able to do would be £500 and that £500 was going to pay YYY off so then we would only have XXX to pay off.”

(Male customer, South)

“With the kids at school, they come home and ‘we want this’ and ‘we want that’ and if you haven’t got the money and you want to treat them then it’s quite easy to pick up the phone ‘yeah, I need this much’ and it’s there, so you can go and treat them and everything. I don’t know if anyone else knows but XXX are quite happy to just go ‘yep, there you go’. It’s no big deal, they give just give it.”

(Female customer, London)

A minority claimed to be more disciplined in their use of home credit and only used it for a specific reason. They intended to let the loan lapse once they had paid it off; however, if the need should arise at a later date, they might consider taking out another discrete loan.

Respondents referred to taking out loans for sums ranging from £100 to £2,500. However, it should be appreciated that respondents were often rather vague about the total amount outstanding. This is discussed further in the following section.

1.2.3 Customer Understanding of the Home Credit Product

Customers seemed to have a fairly clear understanding of the basic loan product offered by providers. In simple terms, they understood that they borrowed a certain amount of money and made weekly repayments which included interest over a set period of time.

Customers seemed to be focused primarily on the size of the weekly repayments and whether these were affordable. The total amount to be repaid seemed less top of mind.

“First of all that it’s available for me, it’s not going to be a problem getting it and, secondly, that it’s easy to pay off as well. Affordable. I haven’t had any bother with it, I haven’t missed any payments, I’ve not fallen behind so it’s been all right. I haven’t found it too much pressure. With the credit card I used to get letters all the time, sometimes you get two letters on the same day.”

(Male customer, Scotland)

There was little awareness and knowledge of the exact interest rate payable. Most were not very clear about the exact amount of interest they were paying, either in terms of £ per £100 borrowed or the APR.

“To be honest, I don’t know. I didn’t go into major detail about the interest so I can’t tell you the exact amount I’d be paying back.”

(Male customer, Scotland)

“I don’t even have a clue of what the interest is, I just know it’s a lot!”

(Female customer, North West)

“When you’re desperate you don’t look at the interest rate.”

(Female customer, London)

“I wouldn’t have a clue. I just remember that when I took out my first £100 I seemed to be paying this £10 a week back forever and then, when I looked, I thought ‘oh god, I’ve paid back £200’. But it didn’t stop the next time, I still got it.”

(Female customer, London)

“I don’t tend to think of that side, even though my sister has tried to point it out to me how much I’m paying back. She thinks it’s silly, she said the interest rate was very, very high, it’s almost like 170% you pay back, the APR, but I don’t get into interest rates. It could be 17 point something, but I don’t know. I know you pay a lot more back than what you would on a bank loan or anything, really.”

(Female customer, North West)

Respondents were asked if, when choosing a provider, they compared different home credit companies in terms of cost. Only one mentioned trying to do so. Others used more subjective criteria to assess providers, such as length and nature of their history with a provider (e.g. had the service been friendly/efficient, etc.), how strong their relationship with the agent was, and word of mouth/recommendation.

There was a fairly widespread perception that the amount paid back on home credit loans was high, but this was seen as an accepted and inescapable fact of life for these types of loans.

“My husband said to me ‘have you any idea of what you’re paying back to these people?’. I know it’s a hell of a lot, you’re paying back a huge amount, but I said to him ‘where else are we going to get any money from?’.”

(Female customer, London)

“Your interest is a bit high but that’s the price you pay if you do it over a three year period. It is worth it really.”

(Male customer, South)

Positively, there seemed to be general awareness that, unlike some other forms of borrowing, the amount outstanding would not increase even if repayments were missed. All that would happen would be that the period of the loan would be extended. Likewise, if weekly repayments were reduced for whatever reason, the time span of the loan would be lengthened but the amount to be repaid would remain the same.

There were no suggestions coming from home credit customers of being asked to pay or repay more money than they had anticipated.

1.2.4 The Process of Taking Out Further Loans

At a certain point in the life of a loan, agents were likely to inform borrowers that they could take out a further loan/keep the existing loan going. They might suggest ideas about what they could spend a further loan on, e.g. child's birthday, Christmas presents, Easter eggs, etc.

“We’ve had XXX, and it’s if you can’t afford it this week, why don’t you finish up this loan with another loan and pay for the one that you can’t afford, and you end up taking out a £200 loan, having £5 in your hand so you’ve paid off another loan and you’ve started a fresh loan.”

(Female customer, South)

“Just when you finish they send you a letter saying as a valued customer you can have vouchers or more money.”

(Female customer, London)

“He’d say ‘that’s that one finished’ and he’d stand and look at you for you to say ‘I’ll get another one’. Then they send you a card – you’ve been with us that long, blah, blah, blah, would you like to take it out again.”

(Female customer, Scotland)

Many customers seemed pleased to be offered a further (often larger) loan by their agent and were inclined to take up the offer if they felt they could afford it. At some level they seemed to feel that by taking out further loans they were keeping open a useful line of credit which enabled them to purchase items that would otherwise be unaffordable. A few suggested that if they did not take out another loan they would or might not be able to get such a large loan in the future.

“If my loan was clear before Christmas I would probably take a £50 loan just to keep her coming to the house. She wouldn’t push me into it. ... I always try and keep her coming so I know we’ve got her.”

(Female customer, Scotland)

“What they done for me, because I’d fallen behind and that, they done like another loan which cancelled the other one out and there was just one loan altogether and then that’s it. They put themselves out. I mean, I had to pay another £50 on top for administration charges but that was it.”

(Male customer, South)

“In a way he kind of conned me this time because I said ‘look, I’ve got behind on a few payments’, he wrote up another loan, he didn’t even ask me if I wanted to take out another loan, he wrote all the documents up and everything and then came around and said ‘look, just sign this’. He said ‘basically it’s another loan’. The only reason why I signed it is because it gave me a chance of just paying £5 a week. He just wrote me up another loan so then all I’ve got to do is just pay £5 a week this time instead of having to pay £10 here and £10 there.”

(Male customer, South)

“I’d love to stop it. No, I’ll rephrase that. I would like to cut it down. I don’t think I’d like to lose them but I’d like to cut it down to just one small loan that I know I can go out and get anytime.”

(Female customer, Scotland)

“He’s always just said to me anything I want, if I want I can increase it, that kind of thing, or if I finish paying off this one it will always be there for you if you want to get another one. I’m pretty sure I could increase the loan as opposed to getting a separate loan, I think I’d be able to do that.”

(Male customer, Scotland)

A high proportion of customers seemed to be continuing or renewing loans quite routinely rather than letting them run out. Some kept loans going for years.

“Say I want a £500 loan and I’ve got £200 still to pay on the loan I’ve got. They can actually give you £300 and pay the £200 off. You’re just left with that £500. That’s what I do. I just ask for £500 and pay that off. ... I look at my book and check to see how much it’s gone down. Say it’s 50 weeks, you can ask for another loan half way through that. You’re allowed that. I’m still paying £25 a week because I’m taking a £500 loan out but I’m also clearing that one.”

(Female customer, Scotland)

“With XXX, I can pay back half of what I owe and say ‘I need more money’ and bang, there you go, it’s there. I like it because it’s there but at the end of the day it’s just putting me further and further into debt.”

(Female customer, London)

“There’s always something you need the money for and no one else will help. It’s easy – you don’t have to apply and she [agent] will bring the money over. Sometimes the same night. I asked her at 6 o’clock and she was back at 10 o’clock that night with the money.”

(Female customer, London)

Most customers, when thinking about or encouraged to think about a further loan, were inclined to stick with their familiar, friendly agent (“the devil you know”) who had provided good service in the past.

Customers’ appreciation of ‘renewal loans’ seemed quite limited – they were aware that once they had got a loan down to a certain level they could ask to ‘renew’ or ‘reloan’ and get a further lump sum. However, only a few seemed to be aware of the implications of this practice.

“If you’ve got a loan that’s nearly finished you can say ‘do you think I could get a loan, I’ve only that to pay’. He’d go ‘aye, no problem’. He takes what’s left of that and he takes it off what you’re getting and you get the remainder of that. That’s just the way they work. Just say you take out a new one, you’d get it there and then. That’s just how quick you get it.”

(Female customer, Scotland)

“They’re very smiley about the way they do it. They give you a loan and then what they do is, they say when you come down to almost paying the loan off they then give you another loan on top of that and, of course, what they do is they add the two things together and then they whack the interest on.”

(Male customer, South)

There was some recall of agents ‘whetting’ customers’ appetites by telling them that they could borrow more/have another loan. Some customers seemed to be, at some level, flattered and tempted by the offer of more money which made them feel like valued customers. Others were slightly more cynical about the agent’s motivations, but were unwilling to close the door on a line of credit. Continuing the loan, even if it was not really needed, maintained the relationship with the agent, and kept the customer in the habit of making weekly payments.

“My mum, maybe when we were kids, needed XXX. I’m her youngest and I’m 27 and only 2 months ago she stopped having it and that’s because XXX [agent] fell ill and she doesn’t do it anymore and she was like ‘oh well, finished now, I don’t want no more’. I mean, my mum doesn’t earn bad money and my dad worked, they didn’t need them but because she had such a friendship with this woman she used to get XXX cheques all the time and I used to think she was mad because then she’s struggling to pay back this money that you’ve got to pay back double and you think ‘you’re just doing it because you like the lady!’”

(Female customer, London)

“He doesn’t go on about a new loan, he’s just asking what I need. ‘If you need something you can always have a loan. You can always top up. It’s only a phone call away. There’s no problem’. He’s very nice, I wouldn’t say he’s pushy-pushy. He’s had a cup of tea with me, I always tend to offer him a brew. Once or twice, usually when it’s coming up towards the end, then he’ll probably have a brew and stay a bit longer.”

(Female customer, North West)

Activity by the agent was often reinforced by direct mail and possibly tele-sales/courtesy calls from providers’ local or head office offering further loans or vouchers.

1.2.5 Appeal of Home Credit

The personal, approachable service provided by the agent was key to the appeal of home credit. The agent was often seen as “one of us”; he/she came across to respondents as a nice, kind, helpful person who dealt with them on their own territory and on their own level, and who usually provided a familiar, friendly, unthreatening link with the lender. Agents made the process of getting a loan less intimidating. (In contrast, banks were expected to be a lot less easy to deal with, and some respondents referred to “being given the once over” by banks). Over time, regular customers especially developed a good rapport with their agents and felt that they could ask them for help and advice. At some level the agent became a friendly long stop who could provide home credit if and when it was needed for whatever purpose.

A second factor which made home credit an appealing option was that customers felt fairly confident that they would not be turned down for a loan. The decision on the loan would be given quickly and the money would be available within days, sometimes more or less on the spot for renewals.

“It just seemed a lot less hassle than going to a bank because they can be funny sometimes when lending money, can’t they?”

(Female customer, Midlands)

“I’ve tried the bank when I’ve been paid for jobs with cheques. But the building society takes seven days to clear a cheque and if you get cash for a cheque that’s a lot of commission. This [home credit] you can get the money in a couple of days max.”

(Male customer, London)

The appeal of home credit was further enhanced if, as was often the case, the customers were (or felt they were) excluded from other forms of lending.

“They’ve got a hold on you, haven’t they, because you made a big mistake once they’re the ones who will lend to you. No one else will.”

(Female customer, London)

“Once you’re blacklisted you’re always blacklisted. These [home credit providers] are the only people who will give you money.”

(Male customer, London)

Finally, home credit loans were well tailored to customers’ needs. The application process was uncomplicated (no long forms) and fairly easy; the payments (weekly, fortnightly or monthly) were usually affordable and manageable, and the regular collection at agreed times helped customers make sure they had the money ready and kept up with payments. There was the knowledge that if payments were missed the amount owed would not go up and that agents were usually quite reasonable about missed payments and were willing to accept less rather than miss a payment altogether. Many respondents found that paying in cash gave them a feeling of control over their budget – some referred to being able to see where the money was going and being able to juggle priorities as and when the need arose.

“You go to the banks or anywhere else, I know because I’m nobody’s fool, I know it’s far cheaper, I know I’d be better off in the long term, but it’s like piles of paperwork and phoning up and seeing ...waiting if it’s agreed and then you don’t get agreed.”

(Female customer, North West)

“With the bank you’ve got to go through all the forms and all that.”

(Female customer, North West)

“It was dead simple, it wasn’t like the same as going up to the bank, it wasn’t like a huge complicated process.”

(Female customer, Scotland)

“I’m not too keen on going up to [the bank] and filling in all the forms and having to go in there and apply. It feels like you’re going for a job interview. At least with this [home credit] they come to your house, it’s better that way. And that you don’t have to pay it off in any major amount. It’s nothing that’s going to cripple me so I can take my time that way.”

(Male customer, Scotland)

“It’s accessible, it’s affordable and you don’t have to worry about going up town for instance to pay it. They come round to your house.”

(Female customer, North West)

“I’ve never been hassled, I’ve had no hassle with them, they’ve always rung me up and spoken over the phone, nice as pie over the phone. I go down there, if it’s a couple of days late I go down and sort them out what I can. They’re absolutely fine with that, no problems whatsoever.”

(Male customer, South)

“Once I’ve paid out every month what they need paid out then what’s left is left. I mean, I got paid today and I’ve got nothing left, not a penny. I’ve paid off my catalogue, the girls’ Brownies and gymnastics, my rent, my Poll Tax, my water ... I do it all myself, so that I know that I’ve paid it because my other half’s rubbish. I don’t like doing direct debits because I don’t feel like I’ve paid it then, I’d rather just do it myself.”

(Female customer, London)

1.2.6 Drawbacks of & Problems with Home Credit

The following drawbacks/problems were identified:

- the high cost of loans;
- borrowers becoming over-burdened;
- agent-related problems;
- loans were too easy to get;
- stigma.

It was generally acknowledged that home credit loans were a very expensive way of financing day to day living, and there were fairly widespread complaints about the cost of these loans. Also, good (i.e. regular) payers were conscious that, to some extent, they were paying for those who were less conscientious about meeting their weekly repayments.

“It is extortionate. They shouldn’t really charge that much ... but if you need it in an emergency then they are a godsend.”

(Female customer, Midlands)

“The down side is the amount of interest. There is a lot of interest.”

(Male customer, Scotland)

Related to the problem of the cost was the possibility of borrowers becoming over-burdened by taking on loan(s) and/or payments that they found hard to keep up. Sometimes customers’ circumstances changed, e.g. illness/disability, unemployment, which made it difficult for them to meet the agreed payments. Some customers took out multiple loans with one or more providers and then struggled to meet all the payments.

“If you can keep your head it’s a good thing, but I know people who have ended up in court with CCJs against them about everything and bailiffs coming to take their cars and belongings.”

(Female customer, North West)

“In the long run, being offered one loan on top of the other doesn’t help because it gets you deeper and deeper in debt. It then takes you longer to get out of it and obviously your payments are going up slightly each week and more each time.”

(Male customer, Scotland)

Although most had a good relationship with their agent, there were instances where the customer experienced problems to do with the agent. If the agents did not call regularly

customers could fall behind with their payments and get into difficulties. Respondents frequently stated that if the agent did not turn up at the usual time to collect the payment then that money could easily get spent on other things. Thus if the agent did not turn up for several weeks a fairly sizeable amount of back payments could build up. In one instance, a borrower ended up in court for failure to keep up payments because, she claimed, her agent had failed to turn up for some time and she had thus accumulated quite a large sum in arrears.

“If they don’t come for the money one week then you’re in arrears and you might spend the money and the following week comes and you’ve got to give them double, and you might not have it.”

(Male customer, North West)

“The agent, she was someone I knew. Cut a long story short, I fell out with her and she stopped coming. Then no one came for months. Well, I didn’t have the money, did I? It’s not like you keep the money to one side every week so that it’s there for when they do come. If they haven’t come for it I’ll have spent it by the next week!”

(Female customer, London)

If agents changed quite frequently then understanding of customers’ needs and ability to repay could be lost. Without a relationship there was less incentive for the customer to keep up payments.

There were a few stories of agents getting nasty and behaving inappropriately when customers were not able to make repayments for any reason.

“She might be fantastic because you pay her. Don’t pay her and see what she says then!”

(Female customer, London)

“I’ve had others that get right bolshy about it and then I don’t want to pay them. If they get funny with me I think ‘right, I’m not paying you now, you’ve been nasty to me’. I might have had a really good reason why I couldn’t pay that week.”

(Male customer, Scotland)

Customers felt that home credit loans were almost too easy to get and this could encourage over-indebtedness, especially since there was little to stop borrowers taking out loans with a range of different home credit providers. The agent’s offer of money, sometimes on the spot, could be very tempting to the hard up or weaker willed. Sometimes it encouraged them to take on loans that they could not really afford or found hard to repay. There was anecdotal

evidence of agents inviting, even encouraging, customers to take out further or larger loans; renew loans part way through the original loan; or ask for more loans/items.

“Can you imagine what that’s like – to, say, an unmarried mother living in a council flat, Christmas is coming up, someone banging on her door and offering her money?”

(Male customer, Midlands)

“If it can encourage me, then it really encourages the wrong kind of person to get into severe debt.”

(Female customer, Midlands)

“XXX, it started off I was doing the woman a favour. I knew her mate or one of her clients, customers, whatever you call them, and she needed another person to get up to her limit so that she got a bonus. So I said okay, I’ll make up. I mean, I didn’t need the money when I took hers out and it’s just got me into more debt and it’s my fault for getting myself into debt because it’s easier to take out the loans because they wave it under your nose.”

(Female customer, South)

“It gets you into debt, it’s too easy to get them. Of course it is, and once you start, I mean it’s helped me out so much in the past but once you start it’s so easy, you get more and more and more. I mean, when I first started with XXX it was £5 a week, it’s gone up to £22.50 now. It’s just ‘oh we’ll just give you another loan, just give you another one’. She knew I couldn’t afford it.”

(Female customer, South)

In a few instances, customers felt a bit embarrassed about the agent calling at their home every week. This sense of ‘stigma’ was possibly stronger amongst those who felt somehow uncomfortable with the idea of taking out home credit loans or in localities where there were fewer home credit households.

“My ex hated them knocking on the door for money. He found that really embarrassing.”

(Female customer, North West)

“Ours is the only house in our close where the XXX lady comes round. I don’t like other people seeing her coming round, I’m sure they’re watching out. I just want her in, out, gone. Give her the money and that’s her off.”

(Female customer, London)

1.3 Customers' Relationship with Home Credit Agent/Provider

There was evidence of customer/agent relationships that went back several years. Some customers regarded their agent almost as a member of the family and gave them presents at Christmas and on their birthday. Some invited their agents to family occasions such as weddings and funerals. In one or two instances the customer had taken out a loan because his/her friend was an agent.

"I had his [agent's] mum and my mum had his granny. It was more or less in the family. I had his mum first and then I had him. He took over when his mum died. He bought you chocolates and that for Christmas."

(Female customer, Scotland)

"XXX – she's the agent – she used to call on my friend, and that's how I knew her basically. I said to her about it when I found out my friend did it and it sort of went from there. Must have been about 11, 12 years ago. This is her tea stop – she comes in, has a cup of tea and uses the loo. We get on fine."

(Female customer, South)

"His [agent's] mother collected from my mother and his mother died. It's 41 years, the same man. He took over from his mother. He went to my mum and my dad's funeral. He became part of the family. It was awful sad when he died."

(Female customer, Scotland)

That having been said, some customers preferred not to get too friendly with their agent and sought to maintain some distance. For some customers this was because they saw the process as a commercial transaction and thus preferred to keep their relationship with the agent to a more business-like footing.

The 'good' agent was often positioned as:

- helpful;
- responsive and will come out the same or next day if asked for a loan;
- understanding and flexible – prepared to accept missed payments and/or willing to accept less than the agreed repayment;
- reliable – comes regularly at the agreed time to collect the money;
- sympathetic and willing to listen to problems and give advice.

“The agent that comes round, XXX, is absolutely brilliant, no hassle, nothing. He just says pay what you can and if you haven’t got it we can sort it out next week, or if you haven’t got it we can take it from there. Absolutely brilliant they’ve been.”

(Male customer, South)

“I talk to him as I would one of my mates, I don’t talk to him like he’s an agent. When he comes around to collect the money he will come up into our flat, come in, I put the kettle on for him and make a cup of tea, he will sit there, smoke a fag and chat as if he’s part of the family or I go out to his car and sit down and have a fag with him in his car. He talks to me about his wife and his kids and everything, I talk about my family.”

(Male customer, South)

“XXX I’ve had for seven years. They are fantastic. I’ve got an agreement with the fella that comes to collect – we’ve become quite good friends and I’ve said to him ‘don’t give me any until I am completely paid up’ so he doesn’t. I make sure that I’ve got his money every week, where YYY, I’m really not being nasty to them but I’m not that bothered if I pay them every week or not. I’m happier with XXX because he doesn’t let me get into debt.”

(Female customer, London)

“XXX, I find them very, very helpful in every respect. When I lost my husband in September, the day after I lost my husband he came. I was paying him and I said to him ‘you always asked me how my husband was, well my husband died yesterday’. He said ‘I’ll go away, I’ll see you in a month’s time’.”

(Female customer, Scotland)

Customers made some references to feeling somewhat obliged to their agent because he/she had been helpful in the past, especially in times of crisis, or had been understanding when the customer could not meet repayments.

In some cases, the relationship with the agent had been fractured or otherwise disrupted. For instance, the original agent had left or retired and the customer had not established the same rapport with the replacement agent, or there was a high turnover of agents on a particular round. Disruption to the customer/agent relationship could also be caused if the agent did not call regularly or if the agent’s behaviour came across as inappropriate, e.g. unfriendly, aggressive, patronising.

“XXX, that was one of those firms where it escalated. Their agent finished so they were short on agents. By the time he [new agent] came round he wanted a few weeks payments which I never had, I started giving them lower payments and in the end I just stopped it. They were messing me about as much as I was messing them about.”

(Female customer, North West)

“This woman I knew through my son’s football club, turned out she was a XXX agent so she said the next loan you get do it through me. And she’d come and collect the money every week. Then she stopped coming round and I’ve had three different people come round after her, I never even knew their names. The last one was horrible.”

(Female customer, London)

Some customers noted that their agent’s tone and manner could change for the worse when payments were missed. Customers were particularly disgruntled when this happened because the agent had not called round for two-three weeks and there was a not inconsiderable amount outstanding.

“Her down the road [agent], she can be quite jovial but she was quite nasty to [respondent’s son] when he opened the door. I was quite embarrassed that day because I didn’t have the money, dad’s been in and out of hospital now for 2 years so there have been times where I’ve used my money for petrol so I haven’t paid them and she’s been quite nasty to [son] at the door. She had a go at him for it. I was sat in here, I wouldn’t go to the door, I just said to [son] can you just tell her can I leave it this week and I think she said something nasty like ‘oh, I’m going to have to smash her face in’ or something. She was joking to him but he didn’t take it jokingly.”

(Female customer, South)

“My agent, she’s a cow. She’s the most grumpy woman ever. She didn’t come round for like three weeks then made out it was my fault I didn’t have the money. I told her she could stuff herself.”

(Male customer, London)

“The agent that comes round stopped coming around. She just didn’t turn up. We would arrange a day for her to come around and then she wouldn’t turn up. And then ... they expected the month we were behind to be paid all in one day, which we couldn’t do at the time. I can’t personally work myself at the moment, I’m signed off with the doctors and everything ... we got a final notice letter saying this is a final notice to pay the outstanding balance. They didn’t give us like no letters before to say look you need to catch up or you’re a bit behind or nothing like that, it was just one of these red letters. And then when she came round we paid the weekly amount and she said OK, can you do any extra and we said no, not at the moment because of our money situation and everything. ... After that we didn’t hear nothing from her for a few weeks and then we got a final letter coming through saying it’s now been passed on to a debt collection agency.”

(Male customer, South)

In some cases, customers gave up taking out loans when their agent retired or died. We believe this could mean that borrowing was somehow linked with the customer’s relationship with the agent and that the need to borrow disappeared when the agent relationship was over.

1.3.1. Factors Influencing Loyalty to Home Credit Provider

Amongst those with only one home credit provider, loyalty was reinforced by the following factors:

- satisfaction with provider/service provided by agent;
- limited knowledge of what alternative options/providers might be like to deal with;
- lack of inclination and interest in seeking out alternatives;
- a desire to keep things simple and not open up relationships with too many different providers;
- trust in and reliance on current agent;
- a desire to maintain or not lose the relationship with their agent;
- habit/conservatism.

“I don’t think I would [switch]. I’m quite happy with what I’ve got. You don’t change something if you like it, you stay with what you’ve got.”

(Female customer, South)

“I’ve no reason to look for someone else. If I’ve needed the money I’ve known I could phone.”

(Female customer, North West)

“I never think to change. I’m not one for changes and I think that’s probably because banks and credit cards frighten me to death anyway.”

(Female customer, Midlands)

Customers thought that it might be difficult to switch loan mid-term because they would have to find the money to pay it off, but also it could seem like they were letting their agent down.

Few customers talked about shopping around and comparing different home credit providers in terms of their offer at point of purchase. Borrowers did not, as a rule, seem to compare different home credit providers closely in terms of the overall cost and repayment terms or length of term of the loan. The primary focus was on how much they could get hold of and what it would cost them in repayments per week.

“I’ve never had any bother so I wouldn’t see any reason to change.”

(Female customer, Scotland)

“I just went with XXX because my friend recommended them.”

(Female customer, Midlands)

Offers of loans from other, less familiar and known providers could be seen as relatively more of a risk, and customers did not know what they would be like to deal with.

However, borrowers might be induced to use or try alternative providers if:

- they were approached via door knocking or introduction by a friend;
- they had problems with their existing supplier/agent;
- they had problems with meeting repayments;
- access was needed to other lines of credit.

Alternative suppliers were looked on as a means of opening up other lines of credit and some had taken out loans with more than one home credit provider in order to get access to more money.

2. The Agent Viewpoint

We have used quotes from agents to illustrate our findings. These comments should not be taken as implying that any particular provider engages in any particular practice. In accordance with the Market Research Society Code of Conduct, the quotes have not been ascribed to preserve the full anonymity of the participants.

2.1 Background Observations on the Agent Sample

Agents often came from fairly similar backgrounds to the customers.

Some agents were introduced to home credit work via friends or family connections. Others had responded to advertisements in the local paper.

Many were collecting part-time, some working longer hours than others. Roughly a third of the agents we spoke to were full-time home credit agents. For some, working as an agent was their primary income; for others it was ‘pin money’, a second income.

Previous and/or other occupations of home credit agents included working in retail, credit controller, stock controller, company director, clerical work, insurance claims handling, delivery work, physiotherapy assistant, and police officer.

Time spent working as a collection agent varied from a few weeks to 40 plus years. More experienced agents seemed quite knowledgeable about the processes of managing loans and very skilful at managing their customers both in terms of keeping them up to date with their repayments and getting them to take out further loans.

Some agents were authorised to arrange loans and/or fill in forms at the customers’ homes. Others claimed that their role was solely to collect the payments, although they could and did suggest customers might take out a further loan. However, these ‘collectors’ did not undertake any of the administration processes.

“I don’t work anything out and if anybody asks me questions about their loans then I ask them to ring the office because I don’t know anything. I don’t know the terms or anything else. As far as I’m concerned, my role is collecting. Collecting their payments.”

(Agent)

2.2 Agents' Perceptions of the Agent Role

This varied a great deal. At one end of the scale were longer serving, more successful agents who were more enthusiastic. They were happy in their work and saw it as a rewarding, enjoyable job.

"It's a social job, not stuck in an office. You're out on the road, you make friends with all your customers; well, the majority of them."

(Agent)

"I enjoy it. It's something I enjoy doing. That's why I've done it for so long."

(Agent)

"I do enjoy the work, I do enjoy meeting with people. I enjoy dealing with them although it's an unscrupulous business. It still makes you feel good that you can help somebody that can't be helped in any other way."

(Agent)

Typically, they saw themselves as 'people people' and enjoyed dealing with customers and helping them to get loans which they were not going to get from more mainstream sources. They also claimed to find themselves acting as financial advisers and agony aunts to some customers.

"If it wasn't for people like XXX who are, I'm sure, ethical companies and there's no harassment to these people, where are they going to go? They're going to go to places where they get beaten up if they don't pay. And I suspect there's more of those growing up at the minute."

(Agent)

"They see me as a lifeline sometimes. They become your friends, they come to rely on you because you become their financial adviser and they will pour problems out to you. You knock on the door and you get a life story!"

(Agent)

“It takes a certain type of person [to be an agent], it’s almost a Social Worker. Quite often they sit there and have a cup of tea, how’s the kids. It’s a social type job. And that’s all to do with the customer relationships. It means we become a friend of the family. And some of the agents that have worked in this company for 20 years go to their customers’ funerals, etc. It is all part of the culture, it’s unique.”

(Manager)

Many observed that part of doing the job well was gaining their customers’ trust and confidence. This helped the agents to maintain regular collections; manage situations where customers were not paying or claimed to be unable to pay in the short or longer term; advise and guide customers regarding taking out further loans. There were also indications that agents managed customers so that they kept on taking out or renewing loans.

“I’m a firm believer in calling regularly. I get customers who say to me ‘you’re five minutes late’ or ‘you’re five minutes early’ and I think that continuity is good. I think it’s the continuity and relationships and I think that’s probably what keeps customers more than anything.”

(Agent)

“If you’re more understanding they will try and make it up. If you’re horrible to them the chances are they’ll say ‘stuff her, I’m not going to pay her’. If you’re pally with them, if they have to miss you for any reason, they’re going to feel really guilty.”

(Agent)

Established agents who had developed a good book of regular customers also found that they could make a good income out of their collections and sales.

“I enjoy it. You meet a load of people and I’ve made a lot of friends out of it and I think a few of them kind of still have me because, I don’t think they really need me, but they just say oh yeah, keep coming, sort of thing, because I’ve made a lot of friends.”

(Agent)

“Like I say, it’s reasonably paid money for short hours. It’s taken me a long time to build the round up to the standard it has been in.”

(Agent)

At the other end of the scale were a minority of agents who were more disillusioned with the work. Whilst they might enjoy the social aspect of the job, they felt more uncomfortable about the way customers were treated in terms of the rate charged for loans. They admitted to feeling torn between doing a job that they enjoyed and which provided a useful income and recognising that they were, at some level, taking advantage of a group of people who were largely excluded from cheaper mainstream credit.

“If somebody’s not got any money and you knock on the door and say ‘do you want a loan ...’ these people that are on crap benefits are more likely going to say ‘well, yeah’. So they can give their children something or they can have something .. it’s pushing sales on people.”

(Agent)

“I’ve had enough of collecting money to be quite honest. It’s just bad. I think these companies take the piss with their interest.”

(Agent)

“It should be illegal to charge interest rates like that, it’s so high.”

(Agent)

Some more recent recruits were inclined to be less satisfied and less enthusiastic about the work and what it involved, especially if they had inherited difficult or “bad” rounds where, for instance, a high proportion of customers were not paying or avoiding payment, or customers had been allowed to fall behind because previous agents had been unreliable about collecting regularly, or where agent/customer relationships had deteriorated.

Furthermore, new agents had to develop their own relationship with customers to motivate them to keep up regular payments. This took some time to achieve and was clearly a daunting task for some novice agents.

2.2.1 Remuneration Deal for Agents

All agents we spoke to were self-employed and almost all were working on a commission basis. Agents had to take responsibility for all their expenses, tax and National Insurance which was paid for out of their gross pay.

Typically agents were paid a percentage of weekly collections. This percentage varied from 4.5% to 12%. In some instances where rounds were not very well nucleated agents might be given a higher level of commission to cover the additional motoring expenses.

Rates of pay and remuneration deals varied across and within the different home credit providers. Some providers also operated an additional remuneration system (on top of commission) which awarded points for customers who paid regularly and deducted points for customers who were not paying or paying a reduced amount. It was claimed that those operating a 'top quality' book could get up to 12% commission. The points system gave agents an incentive to make sure that customers kept paying regularly but could be a bit demoralising for agents taking over rounds that had fallen into disrepair.

One provider paid a flat rate to trainee collectors in the first six months, allowing them to build up their round before going onto commission.

Most agents' income could be further boosted by getting new customers at households where there were no existing customers ('new doors') and also by making sales from catalogues, hampers, etc. Figures quoted were around £5-£10 for each new customer.

Weekly income from rounds varied by the number of customers and quality of their book. Weekly income could also be increased when customers took out renewal loans to pay off existing loans. This money was sometimes described as the "snatch back". The agent's income would increase significantly that week because of higher than normal collections. For instance, they could collect £150 from a renewal customer instead of the £10 weekly payment.

Some companies offered their agents bonuses/one-off payments for meeting targets; during promotions; or for selling specific products, e.g. hire purchase.

Not surprisingly, agents saw it as being in their own interest to build up a quality round of regular borrowers and reliable payers. These agents often sold loans to different members of a family and seemed to have a higher number of working customers. In one instance, a successful agent claimed to collect £3,000-£4,000 per week from a book of 90 customers. This gave the agent an annual income of approximately £20,000 for only a few hours work a week. Other more successful full-time agents claimed to have over 300 customers and to collect £4,000 per week.

“That’s the whole idea, keeping customers on the book for as long as possible so that you’re collecting more, the company’s collecting more and you get paid more.”

(Agent)

At the other end of the scale there were instances of agents working over several days and struggling to collect £100 per week from a book of 250 customers. Our impression was that some agents working poor quality rounds had to work a great deal harder for their remuneration.

2.2.3 Training and Supervision of Agents

The picture that emerged with regard to training and supervision was quite varied across the different providers. The usual pattern seemed to involve the agent shadowing for a week or two an experienced manager or collector on the round they were going to take over.

“Well I just went around with an existing agent for a couple of weeks. He took me around and showed me what to do. No, very little training at all. To be honest, I don’t really know the law. I just do what I’m told from the office and if there’s anything I’m not sure about I’ll ask them.”

(Agent)

Others appeared to have rather more comprehensive training. For example, one agent claimed that training had involved accompanying an agent on their rounds for two weeks, being accompanied by a manager for two weeks, and access to another agent if he encountered problems with paperwork.

“You get the training at the beginning when you first start. You are taken out by your manager and she shows you the ropes. She will explain the paperwork to you. You do have training throughout the year. I’ve just had one in February and that was for the arrears and stuff like that. I’ve got another one in March and that’s about basic cash.”

(Agent)

Some providers also had training days for new agents but these might take place some time after they had started working independently on their rounds. One or two mentioned follow-up training days that happened periodically.



Some agents claimed that they had had very little training beyond a day or two being shown their round. Then it was more or less up to them.

“My friend has just come in [as an agent]. She’s got about three weeks with certain different people, and then you are thrown out on your own. So no, not a lot of training.”

(Agent)

All were meeting with their managers regularly, at least weekly, usually to discuss sales targets, bad payers, how to handle difficult cases, etc. But there were some hints that managers’ focus tended to be on generating new business. The level of *active* support provided by managers, for example, with difficult customers, seemed to vary considerably from agent to agent.

2.3 Agents' Views on Customers and Their Use of Home Credit

Agents confirmed that a large proportion of customers were drawn from poorer areas; those who were or felt they were excluded from other forms of credit; and, in the main, those living in rented accommodation (although a few were owner-occupiers).

"It is a particular group of people and it is because they can't get credit elsewhere."

(Agent)

"My experience over the years is the fact that they haven't got credit rating. A lot of them can't get bank accounts and a lot of them don't bother with that sort of thing. They've never had to have a bank account."

(Agent)

"I think a few of them has either had trouble with banks, you know, and I mean I remember being in Lloyds Bank, my bank, and one of my customers was there, and obviously you never ever do business on the street or in the bank, but he was quite funny because I was in the queue and he said 'I'm just drawing my money, I'll pay' and my friend worked in the bank and she said to him 'how come you're with her?' because obviously she knew what I do, and he said 'well, she's the one that got my head out of the noose'. He said 'I came to your bank and you didn't want to know'."

(Agent)

"They vary dramatically. I suppose in the main they're probably from the poor areas. They're the kind of areas where perhaps people live who have got into debt and can't use banks. Banks wouldn't allow them. And some of them are quite nice, you know."

(Agent)

"A broad spectrum. They can be one parent families right up to people – I know you shouldn't stereotype, but quite a shock – with bank accounts! Some of the homes you go to are absolutely fantastic. Newly decorated, a holiday abroad every year, all that type of thing."

(Agent)

“Then you get the lot that don’t work, so there’s no way they’d ask a bank because they know they wouldn’t get it. Maybe about two-thirds of my customers.”

(Agent)

“What they like is that somebody is coming to collect their payment. They can get cash more or less instantly and for people that are sub-prime, it’s an outlet because most of the loans aren’t credit checked. So for people who cannot get loans elsewhere, companies like mine will provide them with one.”

(Agent)

“A lot of the reasons why these people go to these credit agencies is because they can’t get the money from the banks so they are not what I would call particularly decent people.”

(Agent)

Agents observed that many customers used home credit because their family had used this form of borrowing for years. Not infrequently, agents had more than one generation of a family on their books. Some customers asked for their children to have a loan when they became eligible.

“As the customer has got older I’ve taken on sons and daughters and even their sons and daughters!”

(Agent)

Agents also believed that some of these traditional users had access to other forms of credit but for reasons of conservatism or loyalty or for social reasons continued to use home credit. They believed that others turned to and stayed with home credit because they were, or feared they were, excluded from other forms of mainstream borrowing. There were some claims by agents and managers that certain estates or blocks of flats were blacklisted regardless of an individual’s personal circumstances.

“A whole block of flats can carry a tag. If 3 or 4 people in that block have not paid off their credits the whole block can be blacklisted for that reason. They can’t get standard credit, they can’t go to a bank to get credit or they can’t go to a normal High Street retailer to access goods.”

(Manager)

Beyond this, agents classified customers in terms of their propensity to pay regularly and deal straightforwardly with the collector. It was noted that a sizeable proportion of customers paid regularly and as arranged. There were some claims that the older age group tended to be more reliable and regular payers.

“All the older ones pay. They are the old school, they won’t miss you. Even if they are going to miss you, they will let you know and will pay double the next week.”

(Agent)

A further segment maybe missed payments occasionally but tried to make up later on and clearly were trying to co-operate with the agent collector. Agents acknowledged that there were some who were struggling to pay the original agreed weekly payment but become more regular and co-operative when it was set at a lower rate. Sometimes customers’ reduced income made it difficult for genuine borrowers to keep up to date with payments. It was observed that problems with the administration of Working Families Tax Credit had thrown some customers’ ability to keep up with payments out of kilter.

“Say they’re paying £25 a week and they want something else and you give them a bit more ... If every so often they miss a week that tells me they can’t afford that extra £5 a week so you drop them back to what they were and they are as good as gold again. It’s the only way you can do it, really.”

(Agent)

A third segment, often characterised as younger, were less co-operative and more obstructive. They were missing payments on a regular basis and making the agents work hard to get their repayments. Sometimes this behaviour reflected the customer being over-committed, and sometimes it seemed that customers felt they could get away with delaying or avoiding repayments. On some rounds it was estimated that up to a third of customers behaved in this way; on a very poor quality round it could go up to 50%.

“A lot of them can pay it, a lot of them are working, a lot of them are on benefits and getting over £300 a week but they just don’t want to pay it, basically. They probably know the system and probably think ‘I’ve got away with it before’ ... Some of them just won’t answer the door and you know they’re in. You can hear them, the kids come out and swear at you and they just say ‘no, I’m not paying it back’ and that’s it, you cannot force them. There’s nothing you can do if they don’t pay that.”

(Agent)

From the established agents' point of view, good customers were those who kept their repayments up to date and took out further loans/renewed their loan fairly regularly.

Agents recognised that they needed to work towards getting a good book of co-operative customers and try to avoid taking on those who would turn out to be difficult. This was not always easy because sometimes those who seemed as though they would be good turned out bad and vice versa.

“Sometimes you can get it totally wrong. Those people that you may think could miss you, they turn out the better ones sometimes. It’s hard to say really, sometimes when you go to the property and you see how they live, but again, that’s being judgemental.”

(Agent)

2.3.1 How Agents Get New Customers

More successful agents claimed that the best source of new customers was recommendation from existing customers, and this was the preferred way of getting new contacts. Sometimes they asked customers for leads; sometimes customers spontaneously offered them leads.

“9 out of 10 [new customers] are recommends from my customers. Obviously you’re not allowed to cold canvass or anything like that, so 9 out of 10 is, my customers will say to me ‘my mate down the road wants to see you’ so you pop down and see them.”

(Agent)

“The best customers are recommended from existing customers that are good. If they recommend someone, 8 out of 10 you’re in for a good customer.”

(Agent)

“The person that can be a good customer is those who come along the line and are either a relation or a friend of an existing customer.”

(Agent)

Some agents claimed that they insisted that the new leads wrote to or phoned them up and asked them to call, i.e. the invitation to call came from the prospect. They claimed they did not call uninvited to offer cash loans.

Agents were less enthusiastic about customers generated via canvassing and door knocking. Many did not themselves like cold canvassing in this way, and they also felt that it was more likely to generate leads that were less satisfactory or that turned out badly.

“The canvasser is doing a whole block of flats and 99% of them, because of the type of people, go bump [default] because they’ve done it before and it’s easy for them.”

(Agent)

“The best recommend is word of mouth, not going round canvassing. If you have a customer who recommends their friend then you know that 90% they’re going to be good. To be honest, I don’t agree with cold canvassing. I’ve done it in the past and we have an agent that goes out cold canvassing now. It tends to draw in, not the dregs, but the people who have been refused by everyone else. What I’ve had in the past is that 50% come good.”

(Agent)

“The canvasser goes out but he generally puts a load of old rubbish on. If he puts 20 on you’ll be lucky to get 5 good ones out of that 20. I shouldn’t say it, really, but that’s how it works, it don’t work to your advantage.”

(Agent)

It has to be noted that agents wanted to improve the ‘quality’ of their book and getting new customers who were poor or difficult payers was counter-productive.

Another source of new customers was leads generated by advertising or the internet. These were passed on to agents or area managers who then followed them up to discuss the possibility of offering loans.

“The office send out canvassers periodically. If you wish you can go out and canvass yourself. You get recommendations through friends and existing customers, or people just hear about the company and will phone the office. If it’s in your area then you go pay them a visit and fill an application form in. In the last year I would say I had 20-25 new customers.”

(Agent)

Before new customers were given loans, loan application forms were completed by the agents to get information on potential customers’ income and expenditure, etc. Formal checks might then be run by the office to assess a new customers’ credit rating. Practice in this area

seemed to vary across the different providers and might depend on the size of loan applied for initially. Our impression was that some providers were more thorough than others in credit checking, getting financial information and proof of identity/residence, etc. from new customers.

“You fill out a form basically. Their address in the last 20 years or whatever, National Insurance number ... You’ve got to see them in their home, proof that they live in that house. Proof of who they are, their identity, a breakdown of what income they’ve got, whether they can afford it.”

(Agent)

“XXX are the ones that ask the wages they are on. They are meant to be £185 basic. They want two forms of identification, they do a credit check whereas with XXX and XXX they were a lot slacker.”

(Agent)

The agent, to a large extent, depended on the customer’s honesty in telling them about their various other loan repayments and other outgoings and commitments.

Typically, new customers would be started off with a small loan of around £100, often payable over a relatively short term. Assuming the customer kept up regular payments then a larger and/or longer term loan might be offered after a few weeks.

“There are two options for a new customer. We either offer them a high street shopping voucher of £50 value or £100 cash loan. We start them off on the lowest terms and establish if they’re going to be good payers.”

(Agent)

“I don’t offer less than £100 because it wouldn’t be worth my while and that is over a short period of time, i.e. 15 weeks so then if they progress and I’m beginning to get to know who’s who in the family and so forth. Believe me, it’s them doing the asking, I’m not trying to push them into having more credit. No, it’s them who say ‘I’ve nearly paid that’ and you know the next words are ‘can I have some more?’. And you say, ‘you have, you’ve done extremely well, yes, all right, I’ll allow you to’.”

(Agent)

2.4 Charges for Loans

Managers and agents for the major providers claimed that rates were specified in the rate card and were not subject to variation. The different providers all had slightly different rates depending on the amount borrowed and the repayment period. Generally speaking, it was cheaper to borrow vouchers than it was to borrow cash.

There was no evidence of local agents being able to vary their rates in order to win customers from competitors although independents did seem to be undercutting major players.

Whilst agents claimed that they told customers about the cost of loans and APRs, they observed that customers were more interested in getting the loan and how much it would cost them on a *weekly* basis.

“They need that quick fix at that time, they don’t look at what they’re paying back or anything on it. They just look at the fact ‘yes I can afford to pay that’.”

(Agent)

“You must show your APR on all agreements, but does the customer know what it is? No. It’s how much a week, always how much a week. Don’t tell me that it’s [over 200], which is actually our APR at the moment.”

(Agent)

“You’ve got to explain it to them. You’ve got to say to them that they are having £1000, this is the interest on this for this amount of weeks and so on, and these are the payments that go with them. 9 times out of 10, in my own experience, they will go for what they can afford. The interest rate doesn’t come into it. All they are bothered about is what they have to pay back and over what term.”

(Agent)

“God no, not at all. I’ve never had a customer ask me what the interest was!”

(Agent)

We observed that some agents did not have top of mind knowledge of the APRs charged on different loans. Rather they knew what it would cost on a weekly basis to borrow a sum of money. They also usually knew the total amount that had to be repaid.

“They’re different depending on your terms. To be honest, I don’t actually know straight up. I usually just give a number when I’m doing it, I work from a chart, I don’t calculate it myself.”

(Agent)

“It’s phenomenal [interest rates]. If you borrow £200 you pay back [over £300] and that’s over the shortest term.”

(Agent)

2.5 The Process of Lending More Money to Existing Customers

Since they worked on commission, agents were very much aware of the need to keep existing customers on their books and to get new customers. When customers reached a certain point in the repayment of an existing loan, agents would be alerted via messages on their book indicating the customer's eligibility for further loans and how much they could repay weekly. There were also indications that, at their weekly meetings, managers discussed with agents individual customers' potential for further borrowing.

"There's messages there all the time. Every week there's a message under everyone's name. It'll tell you what can offer them, it'll say 'offer them £1,000 over 55 weeks.'"

(Agent)

"When you get to, say, half way they [managers] push you to reloan the customer."

(Agent)

Some agents clearly felt that their managers expected them to encourage clients to reloan or take out further loans. More experienced agents sometimes queried the computer generated ratings of customers' potential to borrow more or pay more weekly. They claimed to have a better reading of what individual customers could and could not really afford. They preferred to use or rely on their own judgement on when and how further loans should be awarded. Sometimes, based on their knowledge of customers' circumstances, they might recommend to managers that certain customers could make higher payments or they might advise that lower payments over a longer period would be more appropriate. Agents observed that they had an interest in not over-burdening customers because then they would start missing payments and this would impact on the agent's commission and the overall efficiency of their round.

"You've got little messages at the side of the book but those are computerised messages and they don't know the customers like we do."

(Agent)

Agents observed that this management of customers' borrowing might work reasonably well when customers were only serviced by *one* provider. However, it was vulnerable to breaking down if customers were getting loans from other providers and then struggling to meet all the different repayments.

We found that agents' accounts of what happened when loans were renewed were not always very clear. Furthermore, who actually initiated the process of further lending, whether it was the agent or the customer, was hard to assess. Agents suggested that customers sometimes initiated the process although it was hard to say whether customers' requests came from hints dropped by agents in conversation or in the run up to key times such as Christmas, holidays, children's birthdays, etc.

“Basically they ask you for more money. If someone is a good paying customer anyway, everything's okay on their existing loan, then they would usually approach you and say ‘I want something for the holidays’ or something for Christmas, something for a birthday, whatever. If they've already paid off a loan or they've had multiple loans already then they can reloan on those again because we will approve a loan and keep it on file for a number of months so that they are able to reloan on that and just check out again the current situation prior to reloaning it just to make sure that nothing else has changed.”

(Agent)

It was, however, clear that loan renewal before the original loan had ended was quite commonplace and was often prompted and/or encouraged by managers. The commission based remuneration system was a further incentive to the agent.

“Well you get more commission on collections because your collections will be higher. For that particular week you would get instead of say a customer paying you £20 it might £100 so you're getting a better return.”

(Agent)

The agent might sometimes initiate the process by merely telling the customer that they could increase or extend their loan. This might “sow the seed” of further borrowing in the customer's mind. Subsequently, the customer might explore or discuss with the agent possibilities for further lending.

“If a loan is nearly finished I'll ask ‘do you want to renew the loan?’. Sometimes they'll think about it, but you've planted a seed in their head. You give them an idea of what they could do with the money. Or you say to them ‘do you fancy a holiday’, or you know it's their daughter's birthday coming up – ‘do you need some money’. You do it that way.”

(Agent)

“We try and reissue. I’ll ask them if they need a loan again or if they are interested in buying anything. [You] just try and keep them as an existing customer.”

(Agent)

When a loan was paid off early by renewal the agent was usually able to add the lump sum collected from paying off the previous loan to their weekly takings. Thus agents had a vested interest in issuing ‘reloans’ or renewal loans.

“... it’s printed on your collection book [instructions to sell]. I can go to that woman and say ‘your loan is down, I can renew your loan for £600’. So I’ve got commission on £300, they owe £300 on the old loan, I renew it for £600, it’s beneficial to me.”

(Agent)

Some agents, however, knowing that this practice was not in their customers’ best interests, claimed to postpone arranging renewal loans until the initial loan was almost paid off. But their actual success in doing this might be constrained by the twin pressures of managers expecting them to sell more and customers wanting more money sooner rather than later. It was also not surprising for agents to seek to take the opportunity of extra commission that early renewal provided.

“To be truthful, if we wanted to be ruthless I suppose you’d increase a lot of them, but at the end of the day it depends on their credit score. I also feel that I have a priority to my customers and a respect for my customers as well.”

(Agent)

“I try and keep them down to the absolute minimum on their balance. I don’t encourage them to borrow. If they really want the money then you’ve got to do it because you do find sometimes that the customer really does need to reloan the money. When we are in the office the manager might say try and give them more money, ask them if they want anything else. At the end of the day it’s my business, because I’m self-employed so it’s really my wages at the end of the day.”

(Agent)

“If they’re asking for new loans I’ll advise them, ask them if they are sure they can maintain their payments. You don’t want to put them in over their head.”

(Agent)

A minority of agents, mainly those who were quite to very disillusioned with the home credit business were openly critical of the practice of ‘reloans’ which they saw as exploiting customers.

“I earn money from loaning people up and I don’t like doing it any more. Obviously I work on 10% so if they still owe £160, it’s £16 for me for just getting them to sign a piece of paper and handing the money over.”

(Agent)

“Ideally I would like them to take it [the reloan] as early as possible so they are paying back more, so for that week it gives me more collections, as unscrupulous as it is ... you know it’s not fair, it’s taking advantage of people who can’t get loans elsewhere.”

(Agent)

“So say they’ve had a £200 loan and they pay back [over £300]. When they get to [half way] they [managers] will push them to have another £200. The customer will only get [less than £50] because they pay off the [money] they owe so they’ve put interest on from the first loan. So they are paying interest on interest and I have to go and ask them to renew this loan!”

(Agent)

One agent claimed to encourage customers to take out another separate loan rather than renew the existing loan, thus helping them to avoid paying interest on interest.

Finally, there were some indications that direct mail and tele-sales were used by some providers to stimulate interest in getting customers to take out further loans. Customers would be contacted before their loans were paid off inviting them to borrow more money.

Agents recognised that the renewal loan offer was tempting to many hard-pressed people and they suspected that many customers did not really appreciate that they were paying *extra* interest. Many customers wanted the money immediately and, assuming the weekly payments were affordable, did not look too hard at the overall cost of their borrowing.

“I did one last week and she re-loaned on three loans. The value came to just over £1,000 and she ended up with £175. That’s dire, isn’t it? She needed the money, she wouldn’t have cared.”

(Agent)

2.6 Agent's Views on Competition

Most agents recognised that a proportion of their customers were unable or unwilling to get loans from mainstream credit providers and turned to home credit for this reason.

“Because they can’t get it [credit] anywhere else, I suspect. I don’t know ... I would suggest that most of these people have got debts as long as their arm.”

(Agent)

Overall, there was a general feeling that there was a fair degree of competition amongst home credit providers to attract customers and to recruit agents. As evidence of this, agents observed that:

- some customers had loans from other home credit providers (customers had told them this, or the agents had seen the different cards/books);
- they met and were even followed around by other agents when doing their rounds;
- some of them were being headhunted when on their rounds by managers of other home credit companies.

“If they’ve got XXX, 99% of the customers have also got XXX and XXX. A lot of the customers, when I go to the door, especially the old ones, they will say ‘who are you, dear?’ and you can see them flicking through their books.”

(Agent)

“If you walk around any of these estates on any of the nights that I go, you’re queuing to knock on the door. ... I suspect they’ve got debt all over the place, the problem is, you see, that they’re allowed to get this debt.”

(Agent)

“A good proportion do have loans with other companies. I see it quite often – he’ll go to the drawer where they keep their payment card and he’ll say ‘what colour are you’ and he’s got a fistful in his hand, he’s got the works, the whole group, and I say ‘I’m the pink one’.”

(Agent)

“Most customers that I visit have loans with several companies. They are usually with two or more.”

(Agent)



“I was out collecting for XXX and the manager of XXX [competitor provider] approached me in the street and basically offered me a much better package, so I left.”

(Agent)

“There is a lot of competition really. You’ve got Provident, Shop-a-Check, Welcome. Lots of different little companies – Morses, Evans, Greenwoods.”

(Agent)

“You just turn up on the door and then you’ve got everybody knocking at the same time. Sometimes they answer to you and sometimes they don’t answer to you, they’ll answer to someone else. I’ve been in a house when XXX knocked on the door and I’ve been paid and they haven’t and I’m indoors and the children’s gone to the door and said the mother’s not in.”

(Agent)

“We had a manager recently that left and went to work for another company and said to me if I was interested in going to the company because I was good at what I did.”

(Agent)

“We did lose a lot of customers when XXX opened. Quite a while back, three or four years ago. They did take a lot of customers away.”

(Agent)

That having been said, agents acknowledged that customers, particularly the more over-committed, did not always admit to having loans with other companies, especially when taking out a new loan.

Agents wanted to hold on to their customers and, where possible, shield them from exposure to other providers, or at the least ensure that they stayed their customers’ key supplier. Although they were aware that competitors were lending to some of their customers, there was almost no recall of customers seeking to play one agent off against another to get a better deal, either in terms of size and overall cost of loan, period of loan, or amount of weekly repayment. There was also no recall of customers trying to horse trade for better rates.

Agents of the major players, supported by the managers, asserted that the rates offered to customers were set out in the company’s book and rigorously adhered to. However, there were some limited indications from independents that they were competing on price to entice



good customers away from the big players.⁵ They could do this by being rather more selective about who they chose to lend to.

“I am winning business from the larger companies for the simple reason that I am more down to earth. People who are trying to get on their feet and not have so many collections at the door are choosing myself. If they’ve got four, they will choose me to keep. One, because I’m cheap; two, because I’m amicable with their problems. I will discuss it with them and so they are choosing myself and dropping the other two or three.”

(Independent)

We suspect that agents might, to avoid being edged out by other suppliers, offer loans that customers could subsequently struggle to repay. Amongst customers with more than one home credit supplier, agents who were unable to compete on price sought to reinforce their relationship with customers in terms of the service they provided and their responsiveness to customers’ requests.

“I got very close to some customers. They just took to you and that was it. They wouldn’t want anyone else calling and that’s how it went on. It’s just the fact that I try to help everybody, the best that I could and they appreciated it.”

(Agent)

⁵ It should be appreciated that we only interviewed two independent home credit providers. The views expressed by this small sample should therefore be seen as indicative rather than necessarily representative of the independent home credit provider sector.