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MEDIA BRIEFING

Payday lending – a public health concern

A new report argues that payday lending represents a risk to population health by exacerbating debt, financial difficulties and mental health problems among already vulnerable populations.

[Public health implications of payday lending](#), published today by the Glasgow Centre for Population Health, outlines the impact of debt on health and wellbeing and presents a range of evidence in answering ten key questions facing the current payday lending market.

There are substantial negative population health consequences associated with payday loans and chronic debt; one particular study reviewed as part of the briefing concludes that individuals with debt were over three times more likely to have a common mental disorder compared with those with no debt, and were four times more likely to have depressive episodes, panic disorders or anxiety disorders.

The numbers of payday borrowers potentially affected is significant, both in societal and public health terms. The Office of Fair Trading (OFT) estimated the UK payday lending market to be worth £2.2 billion in 2013; this equates to approximately 1.7 million borrowers and 8.2 million new loans over the course of 2013.

Jackie Erdman, Head of Inequalities at NHS Greater Glasgow and Clyde stated:

"The report raises serious concerns as to the use and promotion of payday loans among financially vulnerable, working populations. It shows how many people in poorly paid, insecure work use payday loans to buy food, fuel and to solve housing crises. The report also highlights the difficulty many households have in repaying payday loans including high interest rates and administration fees; which adds further burden to their financial difficulties. This makes it a key public health issue for Greater Glasgow and Clyde.

This report recommends viable alternatives including promoting the Living Wage, tackling under-employment and giving people access to better financial products at times of crisis. Health services have a part to play by understanding the issues of debt and financial insecurity and offering mental and emotional support. Increasingly, staff in all parts of the NHS are able to refer people for money and debt advice to relieve stress and aid recovery."

Importantly the briefing paper also outlines the 2015 Financial Conduct Authority's (FCA) imposed caps on payday lending interest rates and fees. The report highlights the positive impacts of these regulatory reforms but also presents evidence as to some of their unintended consequences. Fundamentally, the reforms do not address the underlying demand for easily accessed, short-term credit among low-income working populations experiencing acute financial difficulties. The reforms may indeed unintentionally worsen the financial and living circumstances for some who now do not meet the stricter FCA imposed lending criteria for payday loans. In these situations unsuccessful borrowers may turn to illegal forms of credit, potentially risking the loss of their home or going without living essentials such as food, electricity or heating during periods of acute financial distress.

The report author Chris Harkins, Senior Public Health Research Specialist at the Glasgow Centre for Population Health emphasises this point:

“The Financial Conduct Authority has introduced a range of appropriate reforms within the payday lending market that are designed to protect borrowers from exorbitant interest rates and fees and spiralling debt. I think the perception now is that the payday lending market is “fixed” – but what this report highlights is that for some borrowers, payday loans had become something of a financial safety net, however toxic. That safety net is still very much in demand, but is now much less accessible for many borrowers struggling to make ends meet. As a society we must develop viable alternatives to payday lending”

The collective role of the state, public services and the third sector in providing local debt management and consolidation solutions alongside holistic and person-centred support and educational opportunities is vital. The societal need for viable, sustainable and accessible financial ‘safety nets’ for vulnerable individuals and families is a key policy concern.

City Treasurer Bailie Philip Braat said: “Glasgow has a good track-record of working with a strong third sector to support community finance, financial education and inclusion – however, this report reinforces many of the concerns the council has raised over a number of years about payday lending and its impact on individuals, families and communities.

“While the FCA has made welcome progress in tackling some of the most exploitative lenders and practices in the market, the availability of sustainable, affordable credit remains a significant issue; as does the support available to those caught in a cycle of debt.

“These are not challenges that should weigh only on the shoulders of the market regulator. They demand attention and action from every layer of government and every part of our community.”

The GCPH have made a number of recommendations:

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

PAYDAY LENDING: A PUBLIC HEALTH CONCERN

Payday lending is a controversial practice which refers to short-term loans for small amounts of money with high interest rates and fees

The vulnerability of the populations involved, the timeliness, scale and growth of the issue, make payday lending worthy of investigation as a public health concern

USE AND SCALE OF PAYDAY LOANS



The majority of payday loans are used for **household essentials** such as rent, food and utility payments



In 2013 there were estimated to be **1.7 million borrowers** who took out a total of **8.2 million payday loans**

Payday loans are predominantly used by low-income, financially-vulnerable working populations, the majority of whom have existing debt

Evidence shows that debt is an additional, corrosive burden on mental and physical health

Payday lending is a contemporary public health concern

OUR RECOMMENDATIONS

Promote the Living Wage, tackle insecure work practices and



ensure access to short-term credit services for low-income households

Payday lending can trap financially vulnerable borrowers in spiralling debt

Identifying **viable alternatives** is a societal policy priority requiring immediate attention

Ensure that those experiencing chronic debt have access to a range of sustainable services and support such as training and career services and money and debt advice

ADVICE

Find out more about this research on our website:

www.gcph.co.uk/publications/656_bp_48_public_health_implications_of_payday_lending

TEN KEY QUESTIONS FACING PAYDAY LENDING

- £ Who uses payday lending?
- £ What are payday loans used for?
- £ What factors drive the demand for payday lending?
- £ Do payday lenders target disadvantaged communities?
- £ Do payday lenders operate irresponsibly?
- £ Does payday lending encourage chronic borrowing?
- £ What are the payday lending regulatory reforms?
- £ Are the payday lending regulatory reforms working?
- £ Is there a viable alternative to payday lending?
- £ Is payday lending a risk to public health?

We look at these questions and more in 'Public Health Implications of Payday Lending'
www.gcph.co.uk/publications/656_bp_48_public_health_implications_of_payday_lending

Notes

1. The Glasgow Centre for Population Health (GCPH) is a research and development organisation, set up in 2004 to add value to health improvement in Scotland. The GCPH generates insights and evidence, creates new solutions and provides leadership for action to improve health and tackle inequality. The GCPH is a partnership between NHS Greater Glasgow and Clyde, Glasgow City Council and the University of Glasgow, supported by the Scottish Government: www.gcph.co.uk.
2. [*Briefing paper 48: Public health implications of payday lending*](#) was published on 2nd September 2016 and is available for download from the GCPH website.
3. Further related publications on [poverty, disadvantage and the economy can be found on the GCPH website](#). [Poverty is also one of the indicators on the Understanding Glasgow web resource \(\[www.understandingglasgow.com\]\(http://www.understandingglasgow.com\)\)](#).

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