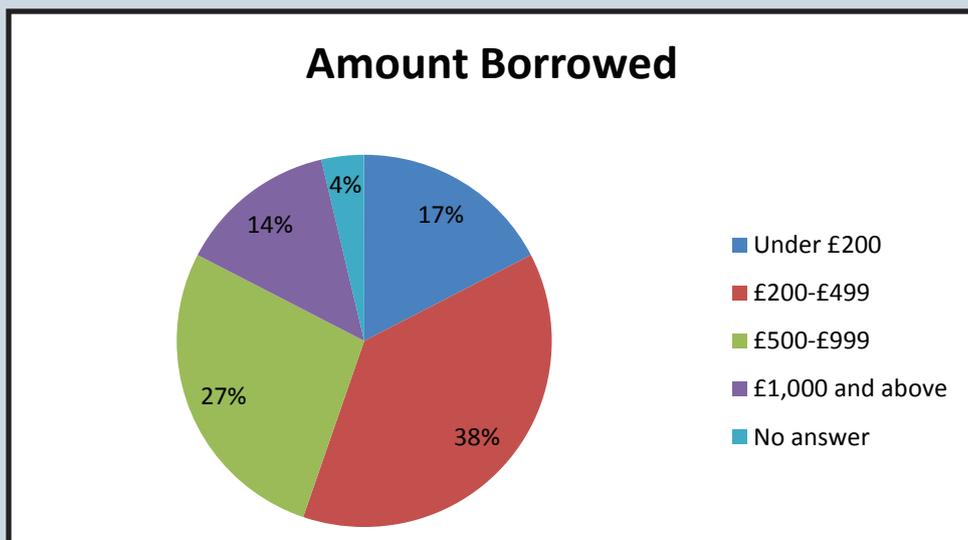


Despite promises of plain sailing a year ago from payday lenders, CAB are seeing more clients than ever whose rights are lost at sea.



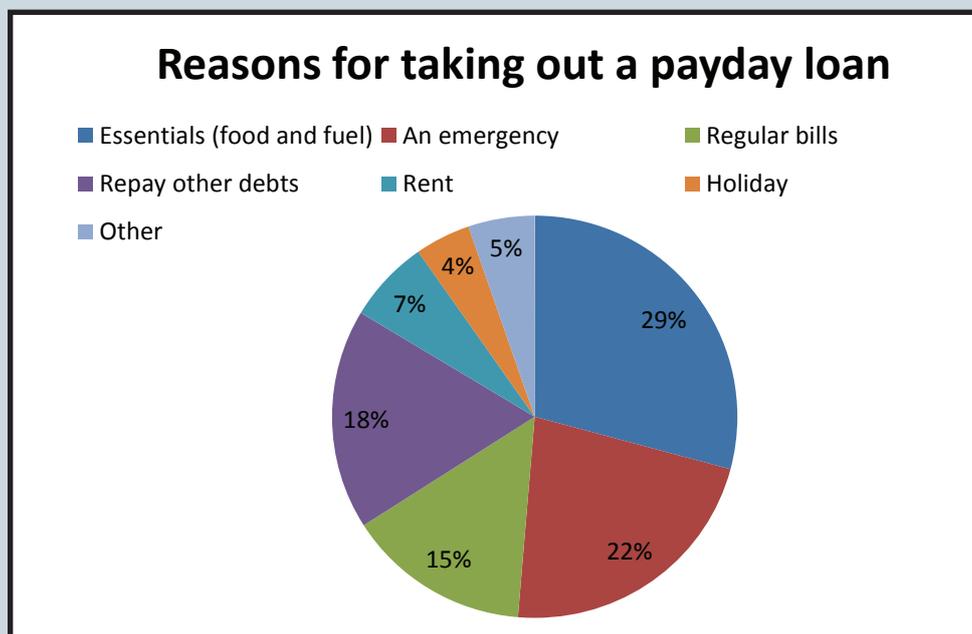
Payday Loans: a mayday call

Over the past twelve months Citizens Advice Scotland has run a public survey on borrowers' experiences with Payday Loans. All of these responses have been collected since 90% of the payday lenders committed to a set of self-imposed rules known as the Good Practice Customer Charter. Based on the responses received we can reveal the following picture of payday loans in Scotland.

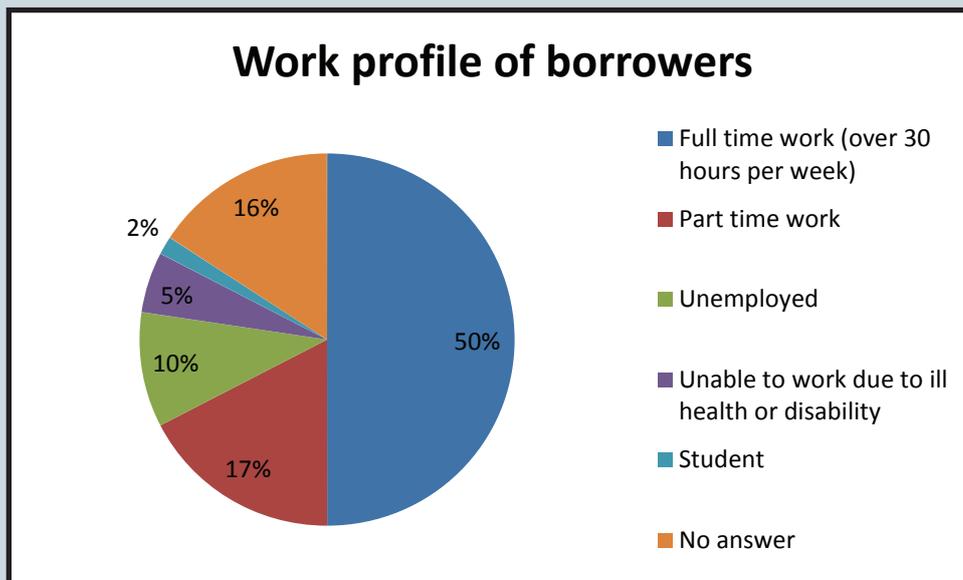


Most of the respondents to the survey had borrowed between £200 and £500 (38%). However, one in seven respondents had borrowed over £1,000. Half of the total respondents were in full-time work when they took out the loan; however one in six of the borrowers that responded to our survey were not in work and would potentially have issues with the affordability of short-term finance.

Our survey has found that customers are relatively well informed when they take out a loan. Over 75% of respondents said that they were clear how the repayment method worked and how much the loan would cost. The full details of our survey results are included in the appendix to this document.



public survey and recommendations



The payday loan industry has often asserted that the loans they provide are not used for essential needs but are used for emergency repairs, holidays and deposits on expensive items. The evidence submitted to our survey, though, shows that well over a quarter of loans are used for food or energy, one in six are used to pay off other debts and 7% used for housing costs.

An East of Scotland CAB reports of a client who had previously taken a payday loan to pay for food shopping. The loan repayment Continuous Payment Authority has now taken the remaining amount of money in her account this month and she is now facing the prospect of either borrowing again to pay for food or seeking help from the local food bank.

A West of Scotland CAB reports of a single pensioner who is dependent on welfare income alone. He is caught in a cycle of payday lending as he takes a new loan to pay off the previous one for three months running. What started as a loan of £100 for a repair has now reached over £350 with no way for the client to afford paying it off.

In the Good Practice Customer Charter payday lenders committed to do the following:

'Carry out a sound, proper and appropriate credit vetting for each loan application to check you can afford the loan.'

Despite this, over 65% of respondents to our survey said that their lender did not check their personal finances and check that they would be able to repay that loan at the end of the agreement.

A West of Scotland CAB reports a client on long-term sick leave from work. His only source of income is basic rate Employment Support Allowance (ESA) and he believes the reason for his debt is his reduced income. He has five payday loans with five different companies amounting to over £4000. The CAB advised that one of the payday lenders' websites advertised the process of getting a loan as fast and free and highlights how soon a customer can get money into their account.

A West of Scotland CAB reports of a client who is a full-time law student at a local university. He has a number of debts including payday loans. The client has taken out four payday loans using them to pay off previous debt when he was desperate for money. The client says it was an easy option online. As the client is taking Law at university he does not wish to consider bankruptcy as this would have an adverse effect on his course of study and future career.

'Make sure that all loan applications go through a sound, proper and appropriate affordability assessment using information you have supplied, including proof of your identity.'

Our survey revealed that the lender did not ask for proof or documentation that the person could afford to repay in eight out of ten responses. Worryingly, CAS has received evidence that young people under the age of 18 are being loaned money by payday lenders and we have seen numerous cases involving identity fraud.

A South of Scotland CAB reports of a 16-year-old client who had taken out a payday loan from a high street lender. She reports that she was never asked for proof of her age, despite the lender's policy not to lend to under 18's. The client has run out of money as the CPA to collect this loan has deducted all of her bank balance.

An East of Scotland CAB reports of a client who has had multiple payday loans taken out in her name without her knowledge or receiving the money. She is now being harassed by a debt collection agency despite involving the police in a fraud investigation. She has explained this to the lenders, yet she is still facing multiple calls every day about the repayment of the loans which total over £2,000.

'Deal with you sympathetically and positively and do what we can to help you manage what you owe. This may include making new arrangements about how you will pay off your debt.'

Over half of the survey respondents said their lender did not treat them sympathetically and 57% said the lender did not offer to freeze interest and offer to make an affordable repayment plan when they were in difficulty with their finances.

An East of Scotland CAB reports of a client who, after failing to meet his payday loan repayment commitment, had been facing harassment from the lender. This escalated to the stage where they had contacted his workplace and spoken to colleagues about his outstanding debt. Despite asking to set up a repayment schedule that was affordable the collection agent was demanding full payment.

A West of Scotland CAB reports of a client who, despite support from an adviser to negotiate a repayment plan for an outstanding payday loan was refused this option by the lender. This client had other substantial priority debts such as housing and energy but the lender would not negotiate.

Recommendations

Citizens Advice Bureaux in Scotland are dealing with over 100 cases involving payday loans every week. As the survey results overleaf show, payday lenders are not tackling the problems effectively themselves. Below are ten recommendations from Citizens Advice Scotland that will help mitigate some of the worst impacts of irresponsible payday lending.

Payday Lenders

- Introduce a real-time credit recording or data sharing system to ensure multiple loans cannot be taken out from lenders before credit reports are updated.
- Agree to attend a CAS round-table meeting in 2014 where CAB client case studies highlighting breaches of the Good Practice Customer Charter will be made available to lenders.

UK Government

- Gather a group of economic experts to instigate an independent total cost of credit investigation. This group would consider a limit of how much can be charged per £1 borrowed. This group would make recommendations to the UK Government based on powers included in the Financial Services Act.

Financial Conduct Authority

- Automatically fine Payday Lenders, with compensation for borrowers, for each and every breach of FCA consumer credit rules on Continuous Payment Authorities.
- Limit the number of attempts a payday lender can attempt to use a CPA on a customer's bank account.
- Limit to one 'roll over' any loan held by a customer of a pay-day lender.

Scottish Government

- All high-school first years to receive a starting deposit in a Credit Union account to encourage prudent saving and membership of local Credit Unions.

Scottish Local Authorities

- Ban access to payday loan websites on council computers in libraries and community centres

Banks operating in the UK

- To provide training for all staff on the rights of consumers to cancel a CPA on their account.

Glasgow 2014 Managing Authority

- A public commitment to no payday loan advertising at the Commonwealth Games.

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