Department of Social Security

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Saving and Borrowing: Use of the Social Fund Budgeting Loan scheme and Community Credit Unions

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A report of research carried out by the Personal Finance Research Centre, University of Bristol on behalf of the Department of Social Security

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SUMMARY

This research was commissioned by the Department of Social Security to explore the ways that people use the Social Fund Budgeting Loan scheme and community credit unions and to provide some initial information on claimant's views of the new Budgeting Loan scheme.

Within this overall aim, it had a number of specific objectives:

- To provide information about Budgeting Loan applicants and community credit union membership, what their needs and preferences are and why.
- To explore any overlap between Budgeting Loan use and community credit union membership and how they are used together.
- To set both Budgeting Loan use and community credit union membership in a wider context of patterns of borrowing and saving.
- To provide information on the features of the Budgeting Loan scheme which either encourage or discourage applicants.
- To explore applicants' views of the new Budgeting Loan scheme, including how it operates; the rules and decision-making process; and experiences of the application processes.
- To explore community credit union members' views of credit unions, again including how they operate; the rules and decision-making process, and identifying any features which either encourage or discourage membership.
- To determine whether some people use both the Budgeting Loan scheme and credit unions. If so, who does so? why? And what do they use each of them for?
- To identify whether there are any credit union members who would never use the Budgeting Loan scheme. And if so, who they are and why?
- To identify whether there are any Budgeting Loan applicants who would never join a credit union.   And if so, who they are and why?
- To draw out the implications of the research findings for the future development of the Budgeting Loan scheme and credit unions.

Research methods

Depth interviews were conducted with users of the Budgeting Loan scheme who had made a claim between April and October 1999, and members of community credit unions who were claiming either Income Support (IS) or income-based Jobseeker's Allowance (JSA). A total of 37 interviews were carried out in five localities:

- 16 Budgeting Loan applicants split across two local office areas – one in London with low application rates and the other in a small Scottish town with high rates - and each of these areas had an active credit union;
- 21 credit union members, split across three credit unions – one in London, one in a city in the North West of England and one in a small town in the Midlands

The interviews explored individuals' use, experience and attitudes of each of the schemes. In addition, respondents were asked about their views and experience of using other forms of credit, as well as savings. Five people were currently using both schemes – one person from the Budgeting Loan sample and four of the credit union members.

Following these depth interviews, three focus groups explored how people decide what sources of credit to use for specific types of need. All three groups were held in an area where there was a large and active credit union and also where there was a high level of applications to the Budgeting Loan scheme. A full range of alternative providers was also available locally, including some very active unlicensed moneylenders. The composition of the groups was as follows:

- Group 1: people who had had a Budgeting Loan between April 1999 and October 1999;
- Group 2: community credit union members who were receiving qualifying benefits;
- Group 3: people on qualifying benefits who had not applied for a Budgeting Loan since April 1999 nor were they credit union members.

Fieldwork took place from the end of February 2000 to the beginning of May 2000.

Background to the study

The Budgeting Loan scheme

The Budgeting Loan scheme was set up in 1988, following a major review of social security provision, to replace single payments that had, previously, been available to claimants of Supplementary Benefit. The *Social Security Act 1998* contained legislative measures designed to simplify Budgeting Loan scheme applications, decision-making and review processes, and to make the scheme less costly to administer. The key changes included:

- separate fact-based decision-making with awards based on factual criteria;
- individual maximum possible loans, determined by the *personal* circumstances of the applicant, defined as the length of time on benefit and family size;
- separate and simpler application forms for each type of Social Fund payment;
- a set of broad categories based on need for *financial assistance* for intermittent expenses rather than a demonstrated need for *specific items*;

- no investigation of need, removing intrusive and paternalistic questioning (DSS Social Fund Policy Branch, July 1999)

The main aim of the changes was to make it easier for potential applicants to understand the circumstances in which they could apply and to make some self-assessment of the likelihood of being successful. The scheme was implemented on 5 April 1999.

In 1999/2000, 1,680,000 applications for Budgeting Loans were received and 1,017,000 awards were made. The average size of Budgeting Loan awards was £389 (Department of Social Security Statistics 1999/2000) (Section 1.3).

Community credit unions

Approximately 659 credit unions were operating in Britain in 1999, around two-thirds of which (447) were community-based schemes (Jones, 1999). Membership of credit unions is defined by a 'common bond'. So, in the case of community credit unions, membership is restricted to people living or working within a certain locality, or who belong to a church, club or other community organisation in that area. The total membership of community credit unions was 107,647 in 1999 (Jones, 1999).

Community credit unions were set up with two main objectives: to promote saving among people on low incomes and to provide access to low-cost credit. To qualify for a loan members must have saved for at least three months and the size of the loan they can apply for is determined by the amount saved (normally three times their savings). In most credit unions, members can obtain loans up to a maximum of £5,000 in excess of their savings (or share capital) (Section 1.4)

Views and experiences of the Social Fund Budgeting Loan scheme

On the whole views of the revised Budgeting Loan scheme were positive and any negative views were largely based on their experiences under the old scheme. Most people had applied for a Budgeting Loan because they had limited access to commercial credit. They mainly found out about the scheme through word of mouth and consequently few were aware that the rules of the scheme had changed in April 1999, until they were in the process of applying for a loan. They found the application process straightforward and the new Budgeting Loan application form was generally considered clear and simple to complete. They also commented positively on the speed with which their applications were processed (Sections 2.1 to 2.4).

Despite the changes to the rules, people continued to apply for loans to buy a broadly similar range of goods as under the old scheme. There was a small but growing awareness that it was no longer necessary to say that the money was needed for the items previously given a high priority. A few people had applied for more money than they had needed, having received less than they had applied for on previous occasions. Although some people were aware that the likelihood of receiving a loan can vary across the financial year, there was no evidence that they had timed their applications accordingly (Section 2.4).

The amounts awarded ranged from £40 to £1,000, although most were between £300 and £500 (official statistics show that the average Budgeting Loan in 1999/2000 was £389). Although a small number of successful applicants had received the full amount they had applied for, most had been awarded less. Where this had happened they had accepted the reduced amounts and this was unlikely to deter them from applying again in the future. There was, however, widespread lack of knowledge of how the size of the loan offer had been decided – among both successful applicants and those who had had applications rejected (Section 2.5).

Loan repayments ranged from £3 to £16 a week. In the small number of cases where people remembered being given a choice of loan and repayment levels, they had accepted the higher offer, as they needed the larger sum of money. Again levels of knowledge were low. Most people knew that loans were interest-free and the level of their repayments. But they did not know how long it would take to repay the loan and had no idea how the repayment amount had been calculated. Few knew that the amount could be reviewed. A small number felt that their repayments were too high, although they managed with their reduced level of benefit, albeit with a struggle at times. The direct deduction of repayments from benefit, however, was viewed very positively as it enabled them to keep close control over their money (Section 2.6).

On the whole, then the Budgeting Loan scheme was highly valued by applicants although their knowledge of how it had changed was poor and only gleaned once an application had been made. Consequently they were more aware of the simpler and quicker application process than they were of the rule changes (Section 2.8).

Views and experiences of community credit unions

Views of credit unions were generally very positive among their members. Members had found out about their local credit union in a variety of ways, including credit unions' promotional activities or local profile, word-of-mouth and from schools or play-schemes attended by their children. Most people were attracted because they liked the linked opportunity to save and borrow. Some, mainly people with young children, had joined primarily to get loans, while a small number of older people had mainly wanted a means of saving (Sections 3.1 and 3.2).

Most of the people interviewed were very active borrowers and the loans they had taken out usually ranged from £200 to £500. Credit union loans were used for a number of different purposes, but generally covered discretionary rather than essential spending (Section 3.3).

On the whole, people's experiences of taking out credit union loans were good. They found the application process simple and straightforward; staff were helpful and supportive; and they perceived the process to be private and non-intrusive. Further, outcomes were generally quick and predictable, as it was rare for credit unions to refuse a loan application. However, people who had had to appear before a loan committee as part of the application process had found it very unsatisfactory (Section 3.3.4).

Repayment levels ranged from £2 to £25 and were decided by borrowers themselves in discussion with the credit union loan officer. Most set them low, but aimed to pay off more if they could afford to do so. Even so, a few had been unable to maintain their repayments at some time and had found the credit union staff helpful if they had to miss a repayment altogether. Because most of them lacked a bank account, repayments tended to be made in person and in cash (Section 3.3.5).

Comparing the Budgeting Loan scheme and loans from credit unions

There was very little overlap between use of the Budgeting Loan scheme and community credit unions. In part this is because community credit unions are thin on the ground and, where they exist, have fairly small numbers of members. But overlap was low even in areas where there is an active community credit union. To a large extent this was because they were used by different groups of people and for quite different purposes (Section 4.1).

On the whole, Budgeting Loan applicants were far more likely than credit union members to be living in circumstances that tend to be associated with hardship and constrained budgets. They included many more families with children (and lone parents in particular) who had lived on benefit for extended periods of time. Unlike the credit union members who were claiming IS or income-based JSA, they included a number of people with health problems, of family breakdown and of recent house moves (Section 4.2).

While Budgeting Loans were used for essentials (beds, cookers and washing machines), loans from credit unions were generally spent on discretionary items that other people might well save up for (Christmas, holidays and planned family events). This was the case even among the small number of people who borrowed from both sources (Section 4.3).

The rules governing credit union loans are very straightforward compared to other forms of credit, Budgeting Loans included. Consequently, all credit union members knew that their loans were related to the amount they had saved, whereas Budgeting Loan applicants knew far less about the rules of the scheme. This was especially noticeable in relation to 'top-up' loans. While most credit union loan applicants had received the full amount they had applied for, most of the Budgeting Loan applicants did not, because they had applied for amounts that were greater than their 'credit limit'. (Section 4.4.1).

Both schemes were considered easy to apply to, even though Budgeting Loan application forms were filled in without assistance and credit union members discussed their application with a loan officer. In both cases applicants thought that their applications had been dealt with speedily. But while credit union members thought that they had a ‘right’ to a loan, Budgeting Loan applicants clearly did not (Section 4.4.2).

Budgeting Loan applicants particularly liked the fact that repayments were deducted at source from their benefit as this removed the responsibility for ensuring that they were made. On the other hand, credit union members did not find that responsibility a problem. There were a number of reasons for this. They knew that future loans would depend on their repayment history; they felt not repaying a loan would be like stealing from a neighbour, and they had established a regular pattern of visits to pay in savings. In addition, they were not facing as much hardship as the Budgeting Loan applicants (Section 4.4.3).

One important difference was that while Budgeting Loan repayment levels were largely determined by Benefits Agency staff, credit union members were able to decide how much they could afford, in discussion with the loan officer. Consequently they tended to set the amounts low, with the intention of paying more if they could (Section 4.4.3).

Other credit use

Most people used some other form of credit alongside the Budgeting Loan scheme or loans from a credit union, although they usually had only one other credit commitment. The most common sources were goods bought on credit from a mail order catalogue and loans from one of the weekly collected credit companies.

Mail order catalogues were used in much the same way by both Budgeting Loan applicants and credit union members. Most customers were women, who bought children’s shoes and clothes, as well as bedding, white goods and other household equipment. Catalogues were also widely used to spread the cost of Christmas presents. There was, therefore, some overlap both with Budgeting Loans and borrowing from a credit union. Two things attracted people to mail order catalogues: the convenience of shopping from home and the opportunity to spread the costs of buying everyday things (Section 5.1).

The *alternative credit market* comprises five distinct forms of credit: weekly collected credit, rental purchase outlets (such as Crazy George’s), pawnbrokers, sell and buy-back outlets (such as Cash Convertors), and unlicensed lenders or loan sharks. All five of these had been used by people taking part in the research, although weekly collected credit was by far the most common. On the whole, users of the alternative market were young families with children and, reflecting this, there were more users among Budgeting Loan applicants than there were among credit union members. People borrowed in the alternative market for a range of different purposes. These spanned the range of reasons why people had taken out a Budgeting loan or borrowed from a credit union as well as including cash loans to make ends meet. Several people had borrowed in the secondary market, having applied for a Budgeting Loan and failing to get the money they needed. The main perceived advantage of alternative credit providers was their availability to people on Income Support, while the chief disadvantage was their cost (Section 5.2).

Family and friends regularly helped one another out with small sums of money to make ends meet but borrowing larger sums of money was not at all common. In part, this was because many of the people interviewed had no-one who could afford to lend them money; in part because larger-scale borrowing was believed to put a strain on family relationships. Where it occurred, it was young people with children who had borrowed money from their parents or other older relatives. In all cases they had already tried to borrow the money elsewhere but been unsuccessful. The Social Fund was the most common source they had tried (Section 5.3).

Access to banking facilities and to mainstream credit – such as bank or building society loans, overdrafts, plastic cards and hire purchase – was very limited indeed. There was little difference in levels of use between Budgeting Loan applicants and credit union members on IS or income-based JSA. Although perceived as low-cost, the mainstream credit was not used for three main reasons: lack of access; fear of getting into financial difficulties, and fear of the penalties and debt recovery practices they would face (Section 5.4).

When presented with a hypothetical range of needs that could not be met from the household budget, people had a clear idea of the most appropriate course of action to take. If possible, relatives would be asked for a loan in the event of a family emergency and failing that an application made to the Budgeting Loan scheme. They were unwilling to borrow for a daughter's wedding, and thought that the daughter herself should save up for the event. To find the last instalment on a pre-paid holiday, people would borrow from relatives or cut back on household spending. If they needed more money than could be raised in either of these ways, they would apply for a Budgeting Loan, but say the money was needed for something else. A Budgeting Loan was widely considered the most appropriate source to replace a washing machine, followed by buying it on instalments through a mail order catalogue (Section 5.5).

Saving

Although most people saved some money regularly, very few of them actively saved in a bank or building society account. If such accounts were used at all, it was to retain small amounts of unspent money for short periods of time – usually until it was needed to make ends meet (Section 6.1).

Almost all the 22 credit union members in the study were actively saving at the time of the research, although more than half of them had lapsed at some time since becoming a member. Most of them had never saved regularly before joining the credit union. The sums saved were between £1 and £5 a week although in the majority of cases, the amount varied greatly from one week to the next. The most important influence on the amount saved was whether or not they were repaying a loan, followed by more general aspects of affordability. Some people regularly paid the same amount to the credit union and, sometimes, all of this would go into savings; at other times some or all of it would be used to repay a loan. In contrast to other forms of saving, credit union members on IS or income-based JSA were not saving up to buy something, but as a means of gaining access to loans and to provide them with a safety net in an emergency (Section 6.2).

Informal saving was very widespread both among Budgeting Loan applicants and credit union members. It took a variety of forms. Most common, was saving loose change at home and this money was normally earmarked for a particular purpose, such as holidays, birthdays and Christmas. Other methods of saving included: buying savings stamps to save up for telephone bills or a television licence or to buy food and presents at Christmas; Christmas savings clubs; delaying drawing benefits or other income, such as mail order catalogue commission, and giving money to someone else to hold for them (Section 6.3).

Conclusions

Most people on IS or income-based JSA *did* have a choice of credit sources, although it was largely limited to ones that are high cost and have many associated disadvantages. The Budgeting Loan scheme was, however, the only source of low-cost credit that was widely available to them. There were four main reasons why people on IS or income-based JSA had needed to borrow money:

- to buy essentials such as household appliances, furniture or clothing;
- to pay bills;
- to meet the costs of discretionary items, such as holidays, Christmas or family events; and
- to make ends meet (Section 7.1).

Budgeting Loans were mainly used for the first two of these; credit union loans for the third. As such, the main alternatives to a Budgeting Loan were mail order catalogues and weekly collected credit. Saving was the chief alternative to borrowing from a credit union. Neither Budgeting Loans nor credit union loans were used to make ends meet. This need was met by borrowing from friends and family wherever possible or else by pawning valuables or borrowing from an unlicensed 'loan shark' (Section 7.1).

There was a clear hierarchy of acceptability of the various strategies for raising the money needed for items that could not be met out of the household budget. The most acceptable strategies were drawing on savings, taking out a loan from a credit union or borrowing from family or friends.

Hierarchy of strategies for raising money

Savings, credit union loan, friends and family

Budgeting Loan, mail order

Weekly collected credit, sell and buy-back, pawnbroker

Rental purchase, withdrawing credit union savings

Loan sharks

At the other extreme, borrowing from a loan shark was, without doubt, a last resort. Borrowing from the Budgeting Loan scheme was, on the whole, seen as second best, largely because there was a reluctance to ask for money from Government, as opposed to drawing on your own resources or those of your family. Interestingly, withdrawing credit union savings was also perceived to be an unacceptable option – mainly because most credit union members on low incomes saw them as security for future loans, rather than money that could be spent (Section 7.2).

Putting this together a model was constructed of the decision-making process about raising money for things that cannot be afforded from the household budget.

- First, the options people consider are constrained by access and by their knowledge of the sources to which they have access.
- Secondly, they assess what sources can be used for the particular purpose for which they need the money.
- Thirdly, they assess the 'credit limit' they currently have with each appropriate source available and whether or not they might need it for something else.
- Fourthly, they weigh up the relative costs of raising money by each of the options, alongside the penalties for late payment.
- Finally, they consider whether they can afford the level of repayment offered by the creditor and also how the repayments are to be made – with a preference for methods that take some of the responsibility for repaying out of their hands (Section 7.3).

Applying this to the Budgeting Loan scheme shows that it is accessible, but people do not currently know either what they can borrow for or the maximum amount that they can borrow. The scheme is interest-free and the method of repayment prevents default and hence avoids penalties. Repayment levels, however, are considered both high and inflexible (Section 7.3.1).

The main shortcoming of credit unions is their very limited availability and the consequent low level of awareness of their existence. Access is further restricted by the requirement that people need to save before they can borrow. On the other hand, members know what they can borrow for and how much they are eligible to borrow. Costs are low and there are few penalties for late payment (Section 7.3.2).

Future development of community credit unions and the Budgeting Loan scheme should not focus on whether or how they can be co-ordinated, but more on what they can learn from each other and how, together they can lessen the need for people on IS or income-based JSA to use high-cost commercial credit. For credit unions this means widening access - either by helping people in these circumstances to save or by offering them loans without the necessity of savings.

For Budgeting Loans it is less a matter of widening access than of making it easier to use. In particular, improving awareness and understanding of its rules and decision-making would enable people to use it more effectively. This includes communicating the fact that the scheme is no longer linked to needs for particular items. Letting all applicants know *in advance* how much they are eligible to borrow, and when they can apply for further loans, would give them the security they need to plan ahead. It would also reduce administrative costs if fewer people deliberately increase the amounts they apply for in the expectation of getting less.

Finally, while people are extremely positive about the method of repayment of Budgeting Loans, they often find the levels too high and the system too inflexible. Given that repayment levels are set to ensure that loans are repaid as quickly as possible so that the money is available to other applicants, it may be difficult to reduce them. An alternative might be to simply make the system more flexible so that, in times of particular financial constraint, it is easier to miss a payment than at present (Section 7.4).

1 INTRODUCTION

There is growing concern about both financial exclusion and the growth in alternative providers of financial services that cater specifically for people who cannot gain access to mainstream financial services. In this context, both the Social Fund Budgeting Loan scheme and community credit unions have an important role to play in offering accessible and low-cost credit to people who are on the margins of financial service provision.

This research was commissioned by the Department of Social Security to explore the ways in which people use the Social Fund Budgeting Loan scheme and credit unions and to provide some initial information on claimants' views of the new Budgeting Loan scheme. It has, therefore, provided a valuable opportunity to consider the role that the Budgeting Loan scheme and community credit unions – both individually and jointly - can play in alleviating financial exclusion and providing access to appropriate forms of credit. Bringing these two, quite diverse, sources of credit together in one piece of research offers an opportunity for the kind of 'joined-up' solution to financial exclusion that the government aims to promote.

1.1 Access to consumer credit

There is little doubt that access to consumer credit has widened in recent years. This has been fuelled by de-regulation and increased competition in retail financial markets, together with improvements in risk assessment that have derived from information technology developments. In 1979, just 42 per cent of households were using some form of consumer credit. By 1989 this figure had grown to 60 per cent and at the beginning of 1999 it stood at 63 per cent (Berthoud and Kempson 1992; data from the Office of Fair Trading survey of *Vulnerable consumers*). While income is not a major determinant of whether or not a household uses credit, it greatly influences the sources used, the reasons for borrowing and the amounts required.

Refinements in targeted marketing and application credit scoring mean that most low-income households have very limited access to high-street credit, such as bank loans, credit and store cards, authorised overdraft facilities or hire purchase. This is especially acute among households that claim income-related benefits such as income-based Jobseeker's Allowance (JSA) or Income Support (IS). Indeed, previous research has shown that there is, in effect, a dual market for credit. On the one hand, there is the *mainstream market*, which comprises the main forms of high street credit. On the other, there is an *alternative market* where a range of commercial providers, such as weekly collected credit companies and pawnbrokers, target low-income households. The alternative commercial credit market is quite distinct from mainstream financial services and there is little overlap between them (Berthoud and Kempson, 1992; Kempson *et al*, 1994; Kempson and Whyley, 2000).

The Budgeting Loan scheme and community credit unions are, therefore, an important source of credit for people without access to the mainstream market, and offering a low-cost option to people who would, otherwise have access only to high-cost credit.

1.2 Credit needs among low-income households

Although people with low incomes are often resistant to the idea of using credit, particularly revolving credit such as overdrafts or credit cards, they identify a widespread need for small loans to help smooth the household budget and cover unexpected expenses (Kempson and Whyley, 1999). On the whole low-income households borrow for reasons of hardship rather than consumerism, generally to buy or replace essential household items, including clothing, or to pay bills or make ends meet (Kempson *et al* 1994; Morris and Ritchie, 1994).

They have very clear ideas about the type of credit that is most appropriate for them and the organisations they feel most comfortable about borrowing from. In many respects, their needs do not correspond with the forms of credit that are available from mainstream providers, such as high street banks or building societies and credit card (Kempson *et al*, 1994; Rowlingson, 1994; Kempson and Whyley, 2000).

People with low incomes generally need to borrow small sums of money, over relatively short periods of time. As a high proportion of them, particularly those in receipt of means-tested benefits, do not have a current account, they need to receive their loan and make repayments in cash. Further, they need the repayment arrangements to fit in with their budgeting routine. Consequently, they have a strong preference for weekly repayments and would find a monthly payment routine very difficult, if not impossible, to manage. Some people with low incomes like their repayments to be deducted from their income before they receive it, as is the case with Budgeting Loans, or collected regularly from their homes. This enables them to keep tight control over their budget and ensures that they do not get behind with the repayments (Kempson *et al*, 1994; Rowlingson, 1994; Kempson and Whyley, 2000).

Finally, low-income credit-users place a very high priority on transparency. It is important that they are able to keep track of the amount they have borrowed and work out how much is left to repay. Moreover, they need to be confident that their repayments will not change during the course of the loan. In fact, research indicates that people with low-incomes place a higher priority on this kind of stability than on the overall costs of the credit they are using (Berthoud and Kempson, 1992; Kempson *et al*, 1994; Rowlingson, 1994; Kempson and Whyley, 2000).

People with low incomes, particularly those who are excluded from mainstream financial services, also tend to have strong views on the providers they want to deal with (Kempson and Whyley, 1999). They want secure, reputable organisations that they can be confident are trustworthy and will understand their needs. They are highly suspicious of companies that they feel would simply be out to make money from them without regard to their circumstances. They also prefer to deal with organisations with a local presence, that are more approachable and may give something back to the community.

1.3 The Budgeting Loan scheme

The Budgeting Loan scheme was not designed to provide a source of low-cost credit for people without access to mainstream sources. Rather, it is the latest in a series of measures that successive governments have provided to meet the lump sum needs which people on basic means-tested benefits may be unable to meet out of their weekly benefit (Kempson *et al*, 1994).

The Budgeting Loan scheme was set up in 1988, following a major review of social security provision, to replace single payments that had, previously, been available to claimants of Supplementary Benefit. In their current form, Budgeting Loans can be made to people who have been receiving IS and income-based JSA for at least twenty six weeks. In 1999/2000, 1,680,000 applications for Budgeting Loans were received and 1,017,000 awards were made. The average size of Budgeting Loan awards was £389 (Department of Social Security Statistics 1999/2000).

The introduction of the Social Fund drew substantial criticism from lobbyists because it would be cash-limited and, for the first time, some of the needs were to be met by loans repayable by direct deductions from benefit, rather than by grants. Users, on the other hand, identified a number of advantages of the Budgeting loan scheme over commercial loans. In particular, they welcomed a source of interest-free credit and many liked having repayments deducted at source from benefits. On the other hand, many people were confused about the Social Fund, and a number of studies have concluded that the outcomes of applications were something of a lottery. Also, as with the take-up of some benefits, use of the Social Fund was limited by lack of knowledge (Huby and Dix, 1992; Kempson *et al*, 1994; Huby and Whyley, 1996).

The *Social Security Act 1998* contained legislative measures designed to simplify Budgeting Loan scheme applications, decision-making and review processes, and to make the scheme less costly to administer. The key changes to the scheme include:

- a separate fact-based decision-making for Budgeting Loans with awards based on factual criteria;
- individual maximum possible amounts of Budgeting Loan debt that are determined by the circumstances of the applicant;
- separate and simpler application forms for each type of Social Fund payment, supported by leaflets to enable applicants to decide which payment is likely to fit their circumstances;

- automated decision-making, with more transparent decisions;
- a set of broad categories based on need for *financial assistance* for intermittent expenses rather than a demonstrated need for *specific items*;
- no investigation of need, removing intrusive and paternalistic questioning (DSS Social Fund Policy Branch, July 1999)

The main aim of the changes was to make it easier for potential applicants to understand the circumstances in which they could apply and to make some self-assessment of the likelihood of being successful. Consequently, Budgeting Loans are no longer linked to a specific need for credit and decisions are now made according to fact-based criteria rather than on a discretionary basis. The changes were also intended to remove any incentive for applicants to make dishonest applications in order to 'work the system'. The scheme was implemented on 5 April 1999.

1.4 Community credit unions

Community credit unions were set up with two main objectives: to promote saving among people on low incomes and to provide access to low-cost credit. Indeed the objectives of credit unions, as defined by the 1979 Credit Union Act, are:

- the promotion of thrift among members by the accumulation of savings;
- the creation of sources of credit for members at a fair and reasonable rate of interest;
- the use and control of members' savings for their mutual benefit; and
- the training and education of members in the wise use of money and in the management of their financial affairs

In most credit unions, members can obtain loans up to a maximum of £5,000 in excess of their savings (or share capital). In addition, a small number of progressive credit unions offer products that many people on the margins of financial services need, such as bill payment services, home contents insurance and mail order agency. Membership is defined by a 'common bond'. So, in the case of community credit unions, membership is restricted to people living or working within a certain locality, or who belong to a church, club or other community organisation in that area. Unique to credit unions, the common bond is based on the idea that members know each other and are able to exert moral pressure to ensure that loans are repaid.

Relatively little research has been conducted into the membership of credit unions, and very little has distinguished between work-based and community credit unions. The work of Berthoud and Hinton (1989) and Feloy and Payne (1999) examines the membership of both types of credit union, in the UK and Birmingham respectively. McArthur, McGregor and Stewart (undated) do, however, focus solely on community credit unions.

Although anecdotal evidence suggests that work-based and community credit unions have quite different membership profiles, there do seem to be a number of common characteristics. A large proportion of credit union members are women. Elderly and retired people are relatively unlikely to join credit unions, as are young people. Consequently, members tend to be middle-aged. In terms of employment status, almost half of community credit union members are in work, the majority being in full-time employment (McArthur, McGregor and Stewart, undated).

Similarly, a survey of Birmingham credit unions show that, while part-time workers and lone parents are over-represented among their members, unemployed people and pensioners are under-represented. In addition, African Caribbeans are over-represented, while Asians are under-represented (Feloy and Payne, 1999).

Credit union members are commonly attracted by the opportunity to make regular savings and the availability of low cost loans. On the whole, loans are used for fairly everyday items, such as holidays, special occasions such as Christmas, and buying things for the household.

While credit union loans are by far the most preferred method of credit amongst members, they do not seem to have replaced other forms of credit. The survey of credit unions conducted in Birmingham (Feloy and Payne, 1999) shows that many credit union members continue to use other sources of credit at the same time – especially mainstream sources such as mail order catalogues (31 per cent), credit and store cards (33 per cent) and overdrafts (24 per cent). There was however, a reported decrease in the use of such sources since joining the credit union. Use of alternative credit suppliers was much lower – just two per cent said that they borrowed from moneylenders or pawnbrokers – again there had been a reported decline in use since joining the credit union.

Compared with Ireland (both North and South), credit unions have been very slow to develop in Britain; at present the movement covers less than one per cent of the population (HM Treasury, 1999b). In addition, research suggests that 40 per cent of community credit unions are not even at a basic level of economic viability (Jones, 1999).

In 1999, there were approximately 659 credit unions operating in Britain, including work-based and community credit unions, with membership numbers divided almost equally between these two types. Although the number of community-based credit unions has grown steadily over the years, to around 447 in 1999, they remain fairly small with patchy geographical coverage. The average work-based credit union has a larger membership and greater assets. So, even though less than one in six of all British credit unions are work-based, they account for over 70 per cent of the assets (Jones, 1999).

The present government has given enthusiastic support to the credit union movement as a means of tackling financial exclusion. In particular, credit unions are seen as having an important role to play because they are open to low-income groups; encourage small scale savings; provide low cost credit; and can be a bridge to other financial services (HM Treasury, 1999b).

To this end, there have been three important government initiatives to encourage further growth of credit unions generally, and community-based credit unions in particular. First, the Treasury has reviewed the regulation of credit unions and made a number of specific proposals that are designed to lift constraints on growth, in terms of the numbers of credit unions, the number and range of members, the size of loans and other services that can be offered to members.

Second, a credit union taskforce was set up, under the chairmanship of Fred Goodwin, Deputy Group Chief Executive of the Royal Bank of Scotland. Its remit was:

- to identify ways in which banks and building societies could support and assist the credit union movement to increase its effectiveness;
- to look at ways of widening the range of services that credit unions provide to their members;
- to encourage the continuing expansion of the movement.

A key recommendation made by the task force in its recent report was that a Central Services Organisation (CSO) should be set up, to '*promote credit union growth and development in Britain*' (HM Treasury, 1999b). The CSO will, in part, achieve this by offering back room services to credit unions. The intention is that it should be supported by the banks.

Third, Policy Action Team 14 (PAT 14)[1] was given a specific brief to examine '*The scope for development of credit unions, building on planned legislative change*'. To address this issue in some depth, a sub-group of PAT 14 worked alongside the credit union taskforce, with a particular focus on the role of community-based credit unions in combating financial exclusion. The PAT 14 report came to the overall conclusion that:

> *Clearly credit unions could play a larger role in tackling financial exclusion, but changes need to be made to bring this about* (HM Treasury, 1999a).

It goes on to make six specific proposals that would help achieve '*healthy and sustainable growth*'.

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[1] One of 18 such teams set up by the Social Exclusion Unit to follow up its report *Bringing people together: a national strategy for neighbourhood renewal*, which was presented to Parliament in September 1998.

In addition to these government initiatives, the Local Government Association (LGA) has recognised the need for some local authorities to review the ways they have supported credit unions to date. To this end it has been developing guidance for its members. As local authorities have been the main promoters of credit unions in Britain, this is an important development.

Finally, and by no means least, there have been some significant changes at a local level that offer models of good practice. The handful of large and reasonably sustainable credit unions (such as Speke in Liverpool and Dalmuir in Scotland) offer useful models of service delivery. In addition, Birmingham City Council, through its credit union development agency, has been working to encourage small community credit unions to merge and share central servicing arrangements.

Brought together, these factors could lead to the development of larger, more sustainable credit unions throughout Britain. In turn, this could mean a greater chance of partnerships with banks and other financial services providers, so that credit unions could offer a wider range of services (HM Treasury, 1999b; Turner, 1996; Conaty, 1997). So, even though they are still thin on the ground and predominantly small in size, it would seem that community credit unions are poised for rapid growth.

1.5 Meeting the credit needs of low-income households

In many respects both the Budgeting Loan scheme and community credit unions are well placed to meet the needs and overcome some of the problems associated with commercial lending to people on low incomes.

In general, Budgeting Loans are only available to people who meet the qualifying criteria, while credit unions can usually only lend to members who have established a routine of saving. However, once these requirements have been satisfied, this type of credit is more easily accessible to people on low incomes than loans from any mainstream source of credit. Neither the Budgeting Loan scheme nor community credit unions apply a credit check to loan applications. This enables them to lend to people who would be unable to obtain loans in the mainstream market.

In addition, loans from community credit unions and the Budgeting Loan scheme incur far lower charges than credit that is available from commercial providers in the alternative market. Budgeting Loans are, in fact, interest free. So, although people's income is reduced while they are repaying the loan, they are not financially disadvantaged as a result of borrowing. Loans from community credit unions carry very low interest rates, up to a maximum of one per cent per month, giving an annualised percentage rate (APR) of 12.68 per cent. In contrast, the interest rates charged by companies in the weekly collected credit industry range from 105 per cent for a 104 week loan of £800, to 481 per cent on a 20 week loan of £60 (Rowlingson, 1994).

The nature of the loans made by the Budgeting Loan scheme and community credit unions is also far more appropriate for people with low incomes than loans from most other sources. As well as being low-cost or cost-free, they involve small amounts of money and repayment terms are set in accordance with borrowers' financial circumstances.

Further, a current account is not a pre-requisite for receiving or repaying either of these types of loan. Repayments for Budgeting Loans are deducted at source from people's benefit entitlement before they receive it. This is perceived to be a key advantage by many people with low incomes as there is no chance that they will fall behind with their repayments. This system also ensures that repayments can be easily incorporated into the household budget. Loans from community credit unions can also be repaid frequently and in cash. While community credit unions do not deduct repayments from benefit or offer a home collection service, most borrowers will already have established a routine of saving which helps them to maintain repayments.

Loans from theses two sources also offer a transparency that is highly valued by people on low incomes. They involve set amounts of money for specified time periods. In addition, as repayment levels are unlikely to change during the course of the loan, it is relatively easy for borrowers to calculate how much they have repaid and how much they owe at any given time. This makes it easier for them to retain control of their budget.

Finally, the loan products offered by the Budgeting Loan scheme and community credit unions are more flexible than is the case with most commercial credit. There are no financial penalties for late payment and people do not need to worry about aggressive debt collection procedures. Loans from both sources can also be rescheduled in the event of financial difficulty.

The Benefits Agency and community credit unions also meet many of the requirements that people on low incomes have of providers. Both have a local presence, and the role that credit unions can play in community regeneration is also valued. Both organisations are also perceived to be more trustworthy and likely to take a more responsible attitude towards people on low incomes than commercial lenders. Psychologically, therefore, they are far more accessible than other lenders to people who have little or no engagement with formal financial services.

Community credit unions offer another distinct advantage to people who do not currently have access to the mainstream credit market. We know that people who are financially excluded are extremely resistant to the idea of solutions designed especially for people without access to the mainstream (Kempson and Whyley, 1999). They aspire to using the same financial institutions as the great majority of the population and, as a result, require solutions that will help them achieve this. Community credit unions can act as a gateway into mainstream financial services. Borrowing from a community credit union provides an opportunity for people to build up a favourable credit history which could help them to obtain financial products from other sources. In addition, those credit unions offering financial services such as insurance, as well as savings and loans, can increase their members' familiarity with them and build their confidence in dealing with financial matters.

1.5.1 Barriers to meeting the credit needs of low-income households

Despite these advantages, the Budgeting Loan scheme and community credit unions are restricted in the extent to which they can meet the credit needs of low-income households.

Although loans from these sources are potentially more accessible to people on low incomes than credit from other sources, there are important constraints on both of them. Budgeting Loans are only available to people who have been in receipt of IS or income-based JSA for at least twenty-six weeks without a break of more than twenty-eight days. People who are in low-paid work, in receipt of other social security benefits or who move off benefit for more than a month at a time do not meet the qualifying criteria[2]. In addition, while Budgeting Loans are no longer based on specific items or services, applicants must still qualify under broad categories of need.

The patchy coverage of community credit unions means that many people do not have access to one at all. In addition, there is evidence that community credit unions in very deprived areas find it difficult to raise sufficient revenue from members' savings to make a loan fund viable. Finally, even where people with low incomes have access to a community credit union they may be unable to maintain the regular saving they need to qualify for a loan. Indeed, some community credit unions will refuse membership to people they feel would be unable to save regularly.

Further, the time it takes for people to qualify for loans from either of these sources reduces their value for people who need access to credit in a hurry.

There is also a lack of awareness of both the Budgeting Loan scheme and community credit unions which has an impact on the level of credit union membership and Budgeting Loan applications. Even in areas that have a credit union, research among low-income households indicates that few people are aware of them and, in fact, have no idea how a credit union works. Knowledge and understanding of the Budgeting Loan scheme is also low among some groups, such as pensioners.

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2 In fact, both Policy Action Team 14 and the (then) Legal Adviser to the Social Fund Commissioner and Social Fund Inspectors (Buck, 1996, p.259) have proposed an examination of whether the scheme should be extended to other low-income groups.

However, even people who know about community credit unions and Budgeting Loans may decide not to use them. Some people are suspicious of organisations like community credit unions that are run by local people, and instead prefer to deal with an established company. They also worry about their neighbours knowing the extent of their borrowing and other details of their financial circumstances. Low take-up of Budgeting Loans among people who are aware of their existence is generally associated with the stigma of applying for such a loan and perceptions of the 'hassle-factor' of making an application (Huby and Whyley, 1996).

Another important issue is that loans from both the Budgeting Loan scheme and community credit unions are subject to a maximum limit. Most community credit unions can only lend up to a maximum of £5,000 in excess of their share capital. The overall maximum limit on Budgeting Loans is £1000, although since the changes there are now individual maximum limits linked to individual circumstances. Further, because the Budgeting Loan scheme is capped at both local and national level, it cannot make awards to everyone who applies, even if they are eligible.

Finally, while repayment arrangements for loans from community credit unions and the Budgeting Loan scheme may be more appropriate for low-income households than the terms available from high street lenders, they are often less flexible than loans from commercial companies targeting the alternative market. Some people feel they have too little control over the level of their repayments for Budgeting Loans and others find it difficult to cope with having repayments deducted from their benefit entitlement. Credit unions rely on borrowers to establish their own discipline regarding repayment which can be very difficult for low-income households to achieve.

1.6 About the research

The overall aim of the research was to explore the ways in which people use both the Budgeting Loan scheme and community credit unions and to provide some initial information on claimant's views of the new Budgeting Loan scheme.

Within this, it had a number of specific objectives:

- To provide information about Budgeting Loan applicants and community credit union membership, what their needs and preferences are and why.
- To explore any overlap between Budgeting Loan use and community credit union membership and how they are used together.
- To set both Budgeting Loan use and community credit union membership in a wider context of patterns of borrowing and saving.
- To provide information on the features of the Budgeting Loan scheme which either encourage or discourage applicants.
- To explore applicants' views of the new Budgeting Loan scheme, including how it operates; the rules and decision-making process; and experiences of the application processes.

- To explore community credit union members' views of credit unions, again including how they operate; the rules and decision-making process, and identifying any features which either encourage or discourage membership.
- To determine whether some people use both the Budgeting Loan scheme and credit unions. If so, who does so? why? And what do they use each of them for?
- To identify whether there any credit union members who would never use the Budgeting Loan scheme. And if so, who they are? and why?
- To identify whether there any Budgeting Loan applicants who would never join a credit union. And if so, who they are? and why?
- To draw out the implications of the research findings for the future development of the Budgeting Loan scheme and credit unions.

1.6.1 Research methods

The research questions were addressed primarily using a combination of depth interviews and focus groups. Fieldwork took place from the end of February 2000 to the beginning of May 2000.

Depth interviews were conducted with users of the Budgeting Loan scheme who had made a claim between April and October 1999 and members of community credit unions. A total of 37 interviews were carried out in five localities:

- 16 Budgeting Loan applicants split across two local office areas – one in London with low application rates and the other in a small Scottish town with high rates;
- 21 credit union members, split across three credit unions – one in London, one in a city in the North West of England and one in a small town in the Midlands

The interviews explored individuals' use, experience and attitudes of both schemes. In addition, respondents were asked about their views and experience of using other forms of credit, as well as savings.

The three focus groups explored how people decide what sources of credit to use for specific types of need. All three groups were held in an area where there was a large and active credit union and also where there was a high level of applications to the Budgeting Loan scheme. A full range of alternative providers was also available locally, including some very active unlicensed moneylenders. The composition of the groups was as follows:

- Group 1: people who had had a Budgeting Loan between April 1999 and October 1999;
- Group 2: community credit union members who were receiving qualifying benefits;
- Group 3: people on qualifying benefits who had not applied for a Budgeting Loan since April 1999 nor were they credit union members.

Full details of the research methods are given in the appendix.

1.7 This report

The main body of the report explores people's use and experience of, as well as their attitudes towards, the Budgeting Loan scheme and community credit unions, in the context of other available sources of savings and loans.

People's views and experiences of the Budgeting Loan scheme, and borrowing from a community credit union, are outlined in detail in Chapters 2 and 3 respectively. Both chapters explore knowledge and awareness of the schemes; the application process; outcomes of applying for a loan; and the repayment of loans.

Chapter 4 provides a comparison of these two schemes. First of all, the extent of the overlap between users of the two schemes is discussed. The characteristics of people who use the schemes both separately and together are then considered, as well as their reasons for borrowing and their comparative experiences of the two schemes.

People's use of other sources of credit are outlined in Chapter 5, in particular mail order catalogues; the alternative credit market; family and friends; and banking and mainstream credit.

Chapter 6 looks at patterns of saving not just in credit unions, but also in bank and building society accounts. It also describes patterns of informal saving.

Finally, Chapter 7 provides an overview of the process involved in people's decision-making about different sources of credit, and assesses the Budgeting Loan scheme in this context. It concludes by drawing out from the research some implications for the future development of both the Budgeting Loan scheme and community credit unions.

2 VIEWS AND EXPERIENCES OF THE BUDGETING LOAN SCHEME[3]

In their current form, Budgeting Loans can be made to people who have been receiving IS or income-based JSA for at least twenty six weeks. The most recent statistics indicate that, of the 1,680,000 applications for Budgeting Loans received in 1999/2000, 1,017,000 awards were made (Department of Social Security Statistics 1999/2000). Put another way, around 60 per cent of applicants to the scheme were successful in obtaining a Budgeting Loan.

In this chapter, we examine applicants' views and experiences of the Budgeting Loan scheme, particularly in light of the changes to the scheme implemented since April 1999. This includes the application process; the outcomes of applications; the repayment of Budgeting Loans; as well as features of the scheme that may encourage or discourage applicants.

2.1 Views of the Budgeting Loan scheme

In general, applicants were positive about the revised Budgeting Loan scheme. They thought it was 'a good idea' for helping benefit recipients to meet lump sum needs. Given the limited choice and high cost of credit typically available to people living on low incomes, as discussed in Chapter 5 (and see, for example, Kempson *et al*, 1994; Kempson and Whyley, 2000), it is not surprising that positive views were primarily related to the fact that Budgeting Loans were interest-free.

In addition, several people felt that the scheme at least gave benefit recipients some chance of getting an affordable loan for 'lumpy' expenditure.

> *'I think it's very helpful for people like myself who haven't been in regular employment and can't get loans any other way… If I hadn't taken out the Social Fund loan I don't know where I would have got the money from to get certain things, my washing machine and essentials we need.'*
>
> (Lone mother with one child, Budgeting Loan scheme applicant)

Despite the generally favourable view of the revised Budgeting Loan scheme, some people did express criticisms – although in many cases, these were based on people's past experiences of using the Budgeting Loan scheme. These centred on the decision-making process, which several people felt was inconsistent, opaque and, in some cases, unfair.

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[3] The information is drawn predominantly from the depth interviews with people from the Budgeting Loan sample (n. 16), but also includes the attitudes and experiences of the small number (n. 4) of community credit union members who were currently repaying a Budgeting Loan at the time of interview.

'I mean like the time I didn't have any electricity for a week and I applied for a [crisis] loan and they refused me… when I didn't really need the cash, they gave me it and when I really needed it, they didn't.'

(39 year old unemployed man, Budgeting Loan scheme applicant)

Even following the changes to the scheme, most people still felt that applying for a Budgeting Loan was something of 'a lottery'. In particular, people were very confused about why applications had been rejected, or why reduced amounts had been awarded. In addition, two lone mothers, both from the same area, were of the opinion that alcoholics and drug addicts were given a higher priority than other people in the allocation of Budgeting Loans. This, and other recent research (NACAB, 2000), suggests that further work is needed to make the decision-making process more transparent.

Finally, these attitudes were compounded by people's experiences of the social security system more generally. The most common complaint made by respondents was that Benefits Agency staff were unhelpful and sometimes patronising towards benefit claimants.

'They seem to talk down to you…Which is not good.'

(35 year old lone mother, Budgeting Loan scheme applicant and credit union member)

Despite these criticisms, though, it is important to note that the balance of opinion about the Budgeting Loan scheme was positive.

2.2 Why do people use the Budgeting Loan scheme?

As mentioned in Chapter 1, the Budgeting Loan scheme was not originally designed to provide low-cost credit for people without access to mainstream sources, but rather as a replacement for 'single payments' that had previously helped people with 'lumpy expenditure'. But, in fact, most of those interviewed had applied to the scheme because they felt there were few alternatives for people who were not in work.

'Q: When you applied last time, did you try anywhere else for the money?'

'No, no, because I know that I can't because I'm not working or anything and I'm on my own with no income other than Income Support so I know I can't get a loan from anywhere else.'

(26 year old lone mother, Budgeting Loan scheme applicant)

Indeed, a small number of people had tried unsuccessfully to get loans from another source before applying for a Budgeting Loan.

'I've only tried a couple of times to go somewhere and get credit and I've always been turned down, I sent off for a few catalogues and they turned me down.'

(34 year old lone mother, Budgeting Loan scheme applicant and credit union member)

Most, however, said they did not even bother applying for commercial credit as they were sure that they would be turned down.

Informal help among family and friends, both in cash and kind, is widespread among people living on low incomes (Kempson *et al*, 1994). In particular, the depth interviews highlighted the importance of the family as a source of potential financial support. Most notably, several people had used the Budgeting Loan scheme because they had no family to turn to, or were not in contact with their family.

> *'Well, my mother and father are both dead and I don't really have any relations where I could have got it from anywhere else.'*
>
> (35 year old lone mother, Budgeting Loan scheme applicant)

We return to the issue of lending and borrowing among family members, friends and neighbours in Chapters 5 and 7.

2.3 How do people find out about the Budgeting Loan scheme?

Only a small number of people in our sample said that they found out about the Budgeting Loan scheme from leaflets picked up at the Benefits Agency. It is widely accepted that word-of-mouth is the most common way of finding out information, no matter what the subject. And, indeed, the majority of applicants stated that they had learned about it this way, usually from friends or family who already had a Budgeting Loan. It is important to note, however, that many leaflets dealing with other social security benefits specifically mention the types of help that may be available from the Social Fund.

Perhaps more importantly, there seemed to be very little contact between applicants and Benefits Agency staff in terms of discussing issues such as eligibility prior to making an application. Taken together, these points suggest that the Benefits Agency needs to devise further strategies to clarify information and advice about the scheme, and in particular about the rules governing it. We elaborate on this issue below, in Sections 2.4.1; 2.5.1; 2.5.2; and 2.6.

2.4 Applying to the Budgeting Loan scheme

Among the twenty people who were currently repaying a Budgeting Loan, a quarter were first-time applicants. Of the rest, most had made between one and three applications to the scheme.

The amounts applied for ranged from £140 to £1,200, with most falling between £150 and £500. A small number of people applied for more than they needed, and this was often based on their own experience of receiving less than they had applied for in the past, or on what they had been told by other people.

> *'… when you apply you never expect to get the amount you apply for, you expect to get less. Some people say, 'Well, if you want £500 apply for £1,000, if you want £1,000 apply for £2,000', because you're never going to get that, like they'll cut it 50 per cent.'*
>
> (50 year old single man, Budgeting Loan scheme applicant)

'I did have enough for the washing machine and the bed. But I put a bit extra on, just in case, because sometimes they do knock you down. So I thought, well, if I put £150 for the bed, they might knock me down a little bit, but I'll still have enough to buy the bed.'

(24 year old lone mother, Budgeting Loan scheme applicant)

In fact, one woman reported that she was advised to apply for more than she needed by a Department of Social Security officer who was conducting a home visit on another matter.

Several Budgeting Loan applicants in our sample were aware that the likelihood of being awarded a Budgeting Loan depended on the time of year that the application was submitted. So, people applying at the beginning of the financial year were more likely to be successful than those applying at the end.

'I really think it depends on the time of year… and how much money they have got.'

(58 year old single woman, Budgeting Loan scheme applicant)

Even so, these applicants did not appear to have tailored the timing of their applications to the scheme in the light of this knowledge. This suggests that people only apply to the scheme when they are in real need, as opposed to applying at those times when they think they have the greatest chance of success.

2.4.1 Awareness of changes to the scheme

On 1 April 1999 the Budgeting Loan scheme was altered to make it simpler and less costly to administer. The three key reforms were as follows:

- The combined application form for all types of Social Fund payment has been replaced by a separate and shorter application form for each type of payment. The Budgeting Loan application form now lists the categories of allowable expenses, so that the applicant no longer has to demonstrate need;
- Social Fund Officers no longer exercise discretion in awarding loans. Instead, the priority afforded a claim is based on weightings linked to the applicant's personal circumstances, such as family size. The size of the award is then calculated according to these weightings.
- Finally, to enable the Budgeting Loan scheme to provide assistance to as many people as possible, outstanding Budgeting Loan debt acts as a rationing mechanism, so that the amounts awarded in subsequent applications may be reduced. This calculation is a complex one.

On the whole, awareness of the changes to the Budgeting Loan scheme since April 1999 was low. For the most part, people did not realise the scheme had been changed until they were in the process of applying for a loan. Even then, they were only aware of changes such as the shorter form and broader categories, rather than changes to the rules governing the scheme. It seems likely that this lack of knowledge stems from the fact that most people found out about the scheme by word of mouth rather than from official sources.

All three key changes are discussed more fully in the following sections.

2.4.2 Views and experiences of the loan application process

On the whole, people seemed to find applying to the Budgeting Loan scheme relatively straightforward. Positive views about the changes to the application process since April 1999 were centred on the simplified application form and the faster processing of applications. And, although people tended to be applying for much the same things as before, there was some indication that they were gradually starting to apply for items under the new broader categories that had previously been afforded a low priority.

Several people who had made applications before April 1999 had found the previous application form off-putting. Most of these were credit union members with experience of the Budgeting Loan scheme. This is perhaps not surprising, given that credit union loan application forms tend to be relatively straightforward. One of these people, a lone parent with four children, had found the form so daunting that she did not proceed with her application, and instead bought the goods she needed from a rental purchase shop[4].

> *'I went to the DSS and got a form, came home and sat down to fill it in, I thought, 'This is too daunting, I can't do it'.'*
>
> (38 year old lone mother, Budgeting Loan scheme applicant and credit union member)

In comparison, the new Budgeting Loan form was generally considered clearer and simpler to complete.

> *'… it seemed far less, far less questions they're asking you. Much simpler and easier. You had to go through before writing down all the figures, what were the amounts of the things that you needed. I think that's been cut out, you just put in what you want and a grand total of what it will cost. You don't have to price every item.'*
>
> (50 year old single man, Budgeting Loan scheme applicant)

Several people thought that the new form would encourage more people to apply to the scheme.

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4 Rental purchase shops (such as Crazy George's) offer retail credit for white goods, with an optional service charge which entitles the customer to return the goods if they cannot afford the repayments and then reclaim them when they can afford to start repaying. Concerns have been raised in relation to the costs and terms of these optional charges, and these are discussed in more detail in Chapter 5.

It is important to note that, although people were critical of Benefits Agency staff and felt that they were unhelpful, most did not actually need any assistance in completing the form. Moreover, one woman who suffered from agoraphobia valued the fact that she could apply for a loan by post and did not need to go to the Benefits Agency to do so.

Several people mentioned that, under the revised scheme, applications seemed to be processed considerably faster. Most people were pleasantly surprised to receive a response to their application within seven to fourteen days. Finally, one woman liked the idea of having more than one loan offer, so that applicants could choose the most affordable option.

Earlier research indicates that, under the old system, the items applied for largely reflected those given high priority in the guidance notes used by Social Fund officers, that is, bedding, essential furnishings and household equipment (Huby and Dix, 1992; Kempson *et al*, 1994). In this respect, little seems to have changed. Among our sample, the most common items applied for (as in the past) were furniture, beds and bedding, and white goods.

It was noticeable, however, that several people applying after April 1999 had applied for loans for decorating, clothing, and household goods such as crockery and cutlery under the new, broader categories. So it seems that people are starting to apply for items that previously were considered low priority, rather than applying for items of known high priority in order to increase the chances of receiving an award.

2.5 Outcomes of applications

As we would expect, given the nature of the Budgeting Loan sample used (see the appendix for details), the great majority of people had been successful in their most recent application for a Budgeting Loan. And, in contrast to earlier research (Huby and Dix, 1992), most applicants had used their loans for the purpose they had put on the application form. A few people, however, had applied unsuccessfully for further loans after the sample had been drawn.

2.5.1 Successful applications

Although a small number of successful applicants had received the full amount they applied for, for the most part they had been awarded less. The amounts awarded ranged from £40 to £1,000, with most falling between £300 and £500. At the bottom end of the scale, one woman had been awarded about one tenth of the original amount she applied for. On the whole, though, people tended to receive around half of the amount they applied for. This finding corroborates the commonly held perception of the Budgeting Loan scheme that you usually receive about half the amount you request.

People generally accepted the reduced amounts they were offered, for a range of somewhat different reasons. And, on the whole, this had not put them off applying to the scheme again – although for most it was a matter of necessity rather than choice.

In a number of cases it was clear that people were not aware of the rules governing the scheme when they made their application. As discussed above (in Section 2.4.1), the calculation of the amount that can be awarded in subsequent applications when an applicant already has an outstanding Budgeting Loan is a complex one. Several applicants already had a loan or arrears from a previous loan, and only realised the impact this had on their application when they were offered less than they had applied for. Put another way, they had no idea what their maximum possible debt or 'credit limit' was when they were applying for a further loan, nor was this clarified when they received written notification of their reduced loan offer. Following the reduced award, they tended to either buy cheaper or fewer items than they originally intended. One young lone parent, for example, who had applied for a loan to buy a bed and bedding, could only afford to buy the bedding. Some, however, had turned to other sources to make up the shortfall. This is discussed more fully in Chapter 5.

A small number of people were happy with the reduced award they received because, as mentioned earlier, they had applied for more than they needed anyway, in the expectation of receiving less.

Only one person (a credit union member) appealed against the amount she was awarded. Having originally applied for £1,200 to set up and furnish a new home, she was offered £300. She requested a review of her case, but was then told by Benefits Agency staff that the amount had been increased to £512.

> *'… I appealed against it and apparently when I went down they said, 'Oh, they've just upped it', and I got I think £512 I think I got, because it had just been put up.'*
>
> (40 year old woman, cohabiting with young children, Budgeting Loan scheme applicant and credit union member)

She had no idea why the amount had been increased, nor why it was still less than she had originally applied for.[5] Although she tried to explain to staff that £512 was still not enough to cover her needs, she did finally accept the offer after being told that it was the most she would get.

> *'… the amount that they gave me wasn't even enough to buy the carpets or anything for the house, you know, that's what I was trying to explain to them. And they didn't want to know.'*

Clearly, she had not understood that loans are no longer given for particular items, but are determined only by an applicant's personal circumstances

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[5] It is important to note here that guidance regarding the maximum amounts available to Budgeting Loan scheme applicants is often adjusted by the Area Decision Maker to reflect changes in the level of demand within the district. This means that the amounts awarded can vary over time.

and the amount owed on any outstanding Budgeting Loans. Consequently this experience had deterred her from applying to the scheme again, although she hoped never to be '*in that position again*' anyway.

2.5.2 Rejected applications

Although the focus of the research was on the experiences of successful applicants, three people (all from the Budgeting Loan sample) had had very recent loan applications turned down. Their applications were unsuccessful for different reasons: two people already had Budgeting Loans; the personal circumstances of the third person meant that her application was rejected.

One, a 25 year old lone mother with three children, had an application for bedding refused because of the amount she still owed on a previous Budgeting Loan. While she accepted that '*the Social Fund aren't miracle workers*', she was surprised when her application was rejected, as she thought she could apply for a small top-up on her existing loan.

> '*… when I've had loans before and been paying them back, normally before I'm sure you could get the top up loan… if you owed so much money still to the Social Fund, and you needed something, say I had paid a hundred pounds off the loan I had before, sometimes they would let you have up to a hundred pounds again to loan.*'
>
> (25 year old lone mother, Budgeting Loan scheme applicant)

This highlights the need for applicants to be better-informed about the rules governing Budgeting Loan awards.

In the event, this young woman borrowed the money from her mother, although she was unhappy at having to do this as her mother was 'in the same boat'.

'*… [I was] a bit upset, because obviously then I had to keep worrying for my mum all the time. I'm a big girl and I shouldn't have to do it… I've got three kids of my own, and I still have to run to mummy, you know! She's in the same boat as me as it is.*'

(25 year old lone mother, Budgeting Loan scheme applicant)

She had considered requesting a review of decision but was discouraged from doing so by the experience of someone she knew.

> '*… somebody else, you know, a friend of mine had been through the same, they turned her down, and she went for appeal, but she said it was just a complete nightmare.*'

Moreover, she thought that it would be a waste of time, as she had stated why she needed the loan on the original application.

'I thought, 'What's the point?' They asked you to write on the paper why you need the money. So I thought, 'Well going there and telling them again, it's not going to change nothing', because you've already told them why you need it, and why you feel you should be accepted for it. I mean if you need it, you need it. If you don't, you don't. You don't apply for it if you don't need it. That's the way I look at it.'

The two other unsuccessful applicants felt strongly that the decision in their case was unfair. The first instance was a 43 year old lone mother with eight children, whose application for a washing machine was rejected because of the amount still outstanding on a previous loan. As with the cases of reduced loan awards discussed above, she clearly did not know the maximum possible debt she could incur. This aside, she felt the decision was unfair because the Department of Social Security would eventually get all the money back through direct deductions from her benefit. She found it very difficult to cope without a washing machine – caring for her large family, including a disabled adult son, as well as a disability that made walking painful for her, made visiting the launderette almost impossible.

'I can't walk fast all the time. I can't lift something heavy… I can't go out because I have to look after the baby and all the clothes are dirty and the washing machine has been taken away.'

(43 year old lone mother, Budgeting Loan scheme applicant)

She was told that she could ask for the decision to be reviewed, but decided not to as it would mean travelling some distance and would be too time-consuming given her considerable child care responsibilities.

The second case was a 57 year old single woman who had also applied for a washing machine. She believed that she was refused a loan because, having no children, she was considered a low priority[6]. She felt that she was being discriminated against as a single person, although in fact her grandson had come to live with her in the last few weeks. This change in her circumstances, coupled with a physical disability and agoraphobia, meant that she would find it difficult to cope without a washing machine.

'I needed a new washing machine, and because I have got no children or whatever, I got knocked back… I had actually put a letter in explaining to them, I said if I didn't need the machine I wouldn't bother, but I can't hand wash, so I really did need to get a machine.'

(57 year old single woman, caring for her grandson, Budgeting Loan scheme applicant).

A friend had lent her a washing machine but, as this was only a temporary arrangement, she did intend to apply to the Budgeting Loan scheme again.

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6 In fact, under the new Budgeting Loan rules, there are no 'priorities' given on this, or any other basis

'I will apply again… because it is going to be a simple case that I will have to… because basically my grandson, I am washing every day, he is not a boy that can actually go out and come in clean.'

Her lack of understanding of the decision-making process meant that she thought that her chances of success in the future could be jeopardised by the fact that she was currently appealing against a decision to withdraw her Incapacity Benefit.

As well as these three cases, one woman spoke about her ex-husband's experience of loan refusal. After being refused a Budgeting Loan, he said he had been advised by Benefits Agency staff to go instead to a rental purchase shop to get the household goods he needed. If so, it is a matter of some concern, given the high charges associated with these particular retailers.

2.6 Repaying Budgeting Loans

Among the people in our sample with a current Budgeting Loan, the amounts being repaid ranged widely, from £3 a week on a £300 loan to £16 a week on a loan of £500. In the small number of cases where people remembered being given a choice of loan amounts, they had accepted the higher offer as they needed the larger sum of money.

But here, as with other aspects of the Budgeting Loan scheme, lack of knowledge and understanding were widespread. So, although people knew that loans were interest-free and they were well aware of the amount they were repaying each week, most did not know how long they would be repaying the loan for.

Furthermore, people had no idea how the repayment amount was calculated. One man was surprised at having to repay £16 per week on a loan of £500, because on a previous occasion he had been repaying £16 a week on a loan of £1,000. Even so, he accepted the loan because he needed the money.

'I was taken aback by the £16. I think the last time I got a bit more, I got nearly £1,000 and I was paying about £16 per week and this time it was £500 and £16… which I think is really heavy, you know. I think, to my way of thinking, £16 a week for £500 that's too high, that's my main complaint. You have to pay back too much, too soon, they should spread it out a bit more.'

(50 year old single man, Budgeting Loan scheme applicant)

Several other people expressed similar views – they did not understand why the repayments on smaller loans were higher, and felt that this was unreasonable.

'It depends on how much you get. If you get £1,000 and you have to pay back £15, you say alright then, but if its £600 and you have to pay back £15 that's too much.'

(41 year old lone mother, Budgeting Loan scheme applicant)

'The only thing I don't understand with the Social is the smaller the loan they give you, the more money they take back… let's say I had a £800 loan, they would take, from experience, they would take about £7, £8. If you get a £50, £60 loan, they'll take like £13, £14 a week. Maybe it's to clear it up quicker.'

(25 year old lone mother, Budgeting Loan scheme applicant)

In addition, a number of people indicated that they would like to be involved in the setting of repayment levels, as at present they had no say in the matter; this is discussed further in Chapter 4. Indeed, only a small number of people knew that there was an appeals process to review repayment levels. Most, then, simply accepted that the repayment figure was fixed. This is supported by recent research which suggests that review and subsequent re-negotiation of repayment levels are a rare occurrence (NACAB, 2000).

2.6.1 Managing the repayments

Apart from apparent inconsistencies in decision-making, and a lack of understanding of how repayments were determined, the other main criticism made of the Budgeting Loan scheme relates to the high level of repayment of loans and the problems this causes (Kempson *et al*, 1994; NACAB, 2000).

For the most part, people in our sample were able to manage on the amount of benefit they had left after the loan repayment was deducted, even where they had accepted the higher of two offers. A small number of people felt that their repayments were too high, although they too were managing on the reduced amount of benefit they received, albeit with a struggle at times. But of these, only one person felt that high levels of repayment could put people off applying to the scheme.

Yet for many people living on a low income, balancing the household budget is a fragile achievement (see, for example, Kempson *et al*, 1994; Kempson, 1996). So, where people were having difficulty managing financially while repaying a Budgeting Loan, this tended to be because of a change in their circumstances or an unexpectedly high expense like a household bill.

Until relatively recently, one woman had not missed the £3 a week that she was having deducted from her benefit for her Budgeting Loan. However, she had then been switched from Incapacity Benefit to JSA, resulting in a reduction in her benefit from £69.30 a week to £47.50, and was now struggling to cope. She was currently appealing against the decision, but was concerned that she would not be able to pay her Budgeting Loan back if the appeal failed.

> *'… if they stop my money altogether, how am I going to pay it back?… if I have got no money how can I pay them back the money that they have actually given me in the first place? It is a vicious circle. A total vicious circle.'*
>
> (57 year old single woman, caring for her grandson, Budgeting Loan scheme applicant)

In another case, a lone mother who was repaying £12 a week on a loan of £800 could usually manage on the reduced amount of benefit she received, except when she was faced with a large household bill. When that occurred, she borrowed money from her family to tide her over.

> *'It's been okay apart from when I've had a big bill to pay like my TV Licence. But then I've just borrowed the money to do that and I'm paying it back. I borrowed that off my mum, so that's not a problem.'*
>
> (35 year old female loan parent, Budgeting Loan scheme applicant).

Once again, this highlights the importance of the family as a means of financial support for many people living on a low income.

2.6.2 *Method of repayment*

Very positive views were expressed about the direct deduction of repayments from benefit, and several people regarded it as an incentive to use the scheme.

On the whole, people did not miss the money that was being deducted, or else quickly adjusted to managing on less benefit. It meant that they were not tempted to spend the money, and they did not have to worry about falling behind with the repayments.

> *'I think in a way it is a good thing, because it is coming straight off your money, so you are not having to remember to pay it every week… if it didn't come off your Income Support and you had to pay them direct, you could forget or not bother, say 'I will miss it this week', then you have got double to pay the following week, so I think it is better.'*
>
> (57 year old single woman, caring for her grandson, Budgeting Loan scheme applicant).

> *'… it's not as if you have to keep the money in hand and you might be tempted to spend it. I much prefer it the way they do it.'*
>
> (54 year old single woman, Budgeting Loan scheme applicant).

In fact, very similar views are often expressed about weekly collected credit and mail order, where payments are collected by agents. As with Budgeting Loans, this removes the temptation to spend the money, and the fear of falling into arrears.

2.7 Features of the Budgeting Loan scheme that may encourage or discourage applicants

For the most part, people did not express particularly strong opinions about the features of the scheme that would either encourage or discourage application. On the one hand, several people mentioned the shorter and simpler application form and direct deduction of repayments from benefit as incentives for using the scheme.

On the other hand, a small number of people felt that high repayment levels and staff attitudes could deter eligible benefit recipients from applying to the scheme. And one woman had been put off applying for further loans after receiving less than she applied for.

But even though applicants may find certain aspects of the scheme off-putting, they will almost certainly keep applying for Budgeting Loans simply because they have little or no choice when it comes to obtaining affordable credit for lump sum needs.

2.8 Summary

On the whole views of the revised Budgeting Loan scheme were positive and where people were negative it was largely based on their experiences under the old scheme. Most people had applied for a Budgeting Loan because they had limited access to commercial credit. They mainly found out about the scheme through word of mouth and consequently few were aware that the rules of the scheme had changed until they were in the process of applying for a loan. They found the application process straightforward and the new Budgeting Loan application form was generally considered clear and simple to complete. They also commented positively on the speed with which their applications were processed.

Despite the changes to the rules, people continued to apply for loans to buy a broadly similar range of goods as under the old scheme. There was, however, a small but growing awareness that it was no longer necessary to say that the money was needed for the items previously given a high priority. A few people had applied for more money than they had needed, having received less than they had applied for on previous occasions. Although some people were aware that the likelihood of receiving a loan can vary across the financial year, there was no evidence that they had timed their applications accordingly.

The amounts awarded ranged from £40 to £1,000, although most were between £300 and £500 (official statistics show that the average Budgeting Loan in 1999/2000 was £389). Although a small number of successful applicants had received the full amount they had applied for, most had been awarded less. Where this had happened they had accepted the reduced amounts and this was unlikely to deter them from applying again in the future. There was, however, widespread lack of knowledge of how the size of the loan offer had been decided – among both successful applicants and those who had had applications rejected.

Loan repayments ranged from £3 to £16 a week. In the small number of cases where people remembered being given a choice of loan and repayment levels, they had accepted the higher offer, as they needed the larger sum of money. Again levels of knowledge were low. Most people knew that loans were interest-free and the level of their repayments. But they did not know how long it would take to repay the loan and had no idea how the repayment amount had been calculated. Few knew that the amount could be reviewed. A small number felt that their repayments were too high, although they managed with their reduced level of benefit, albeit with a struggle at times. The direct deduction of repayments from benefit, however, was viewed very positively as they enabled them to keep close control over their money.

On the whole, then the Budgeting Loan scheme was highly valued by applicants although their knowledge of how it had changed was poor and only gleaned once an application had been made. Consequently they were more aware of the simpler and quicker application process than they were of the rule changes.

3 VIEWS AND EXPERIENCES OF BORROWING FROM COMMUNITY CREDIT UNIONS[7]

Around two-thirds of Britain's credit unions are community-based schemes, and there are currently around 659 in operation (Jones, 1999). Recent research suggests that, in total, around 107,647 people are members of a community credit union (Jones, 1999). This chapter looks specifically at the knowledge, views and experiences of community credit unions among members who are claiming either Income Support or income-based Jobseeker's Allowance. It outlines members' views of credit unions; how they found out about them; their reasons for joining; and their saving and borrowing behaviour.

3.1 Views of community credit unions

People who took part in the depth interviews expressed very positive views of credit unions. One member referred to them as 'smashing' and another felt they were 'too good to be true'. Several said that they wished they had found out about credit unions earlier in their lives.

> *'I was very impressed, I couldn't see why they hadn't been started long ago in this country. I wished when I was younger and had the children they had been around.'*
>
> (Credit union member in mid-forties, married with disabled husband)

Virtually all of them thought that credit unions were particularly well suited to the needs of people with low incomes. However, there was a clear distinction between people who viewed credit unions as *only* for the poor, and those who felt they had a broader remit and served a wider range of people.

Just under half of credit union members clearly saw them as exclusively for people who had low incomes or were reliant on benefits.

> *People that belong to a credit union don't have a dirty great big Jag hanging around outside the door… They're working class, they're the poorer side of society.*
>
> (54 year old man, credit union member)

> *'I think they're for specific types of people. For the likes of myself. People that are on Income Support.'*
>
> (35 year old lone parent, Budgeting Loan scheme applicant and credit union member).

The remainder, however, believed that credit unions were for the whole community and had something to offer everyone regardless of their income, social class or employment status.

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7 The chapter draws on depth interviews with community credit union members. Further details are given in the appendix.

'No, I'd say they're for everybody, definitely, because they cater for every single need. I mean, if you've got plenty of money to start off with you're just… saving… on the interest [charged on loans]… The likes of myself, that are on a low income… we gain more because you wouldn't be able to get a loan any where else.'

(44 year old woman, married with two children, credit union member)

This distinction appears to stem from a number of factors, including the area that people lived in and the nature of their relationship with the credit union they belonged to.

3.1.1 The area effect

The area effect on people's perceptions of credit unions was particularly stark. The vast majority of those who thought credit unions were only for the poor, including the only non-member who expressed an opinion on this, lived in London. In fact, all the respondents from London who commented on this issue viewed credit unions as agencies catering specifically for disadvantaged groups. All of those who saw credit unions as being for everybody, by contrast, were from the city in North West England and the small West Midlands town. This suggests that credit unions may be perceived differently in large urban areas, such as London, where deprived and affluent communities co-exist much more closely than they do elsewhere. In these circumstances it seems that people who use credit unions may develop a stronger sense of the differences between themselves and other people who live in their area and that this permeates their perceptions of the agencies they interact with.

3.1.2 The relationship with the credit union

In addition, to the area effect, people's relationship with their credit union was also very important. A very high proportion of those who thought they were for everyone were volunteers at their local credit union. Indeed, none of the respondents who were volunteering saw credit unions as only for people with low-incomes. This could indicate that volunteers' involvement with credit unions exposes them to the wider role that they play within communities than most ordinary members are aware of. In fact, one volunteer admitted that prior to her close involvement with the credit union she had perceived them as being only for poor people.

It could also, however, reflect the fact that volunteers are more likely to be aware of credit unions' objectives to meet the needs of whole communities rather than simply deprived groups and that this has influenced their perception of their function.

3.2 Joining a community credit union

Community credit union members had found out about their local scheme in a variety of ways. Their reasons for joining, however, were very similar.

3.2.1 Finding out about community credit unions

People who took part in the depth interviews for this research had found out about their credit union from a range of sources, mostly involving some form of personal interaction. Some had responded to credit unions' publicity and promotional activities, while word-of-mouth was also a key source of information. A smaller, but nevertheless significant, group of members, who were also parents, had found out about their credit union through schools or other organisations in which their children were involved.

Finally, one woman who had grown up in Ireland, where the credit union movement is very widespread, felt she had 'grown up with credit unions' and could not remember exactly when or how she had first become aware of them.

> *'Because they have been going there for donkey's years, years and years. Even when I was a child because I'm Irish… So we grew up with the credit union in the family.'*
>
> (57 year old woman, married, credit union member).

Credit unions' promotional activities or local profile

This was the most common way of finding out about credit unions, and nearly half of all credit union members who were interviewed, had become aware of their local scheme in this way. Most had been to presentations given by credit union development workers at a church or community centre. One had been approached at a local fête by outreach staff who talked to her and gave her information.

Interestingly, the majority of people who had found out about credit unions from promotional activities belonged to the London credit union. In fact, five of the eight members of this credit union had found out about their credit union from outreach activities. This suggests that 'word-of-mouth' may be less widespread in large urban areas, where such schemes are less visible to the public, and where the local population is likely to be more transient. It could be the case that credit unions in these communities may have to undertake more active recruitment strategies.

Two members had simply become aware of their credit union because of its local presence. Both lived in smaller areas, where the credit union had a high profile. One could not identify a specific source of information, explaining only that 'it was very local' and that was how she had found out about it. Another member had not known she had a local credit union until it took over premises previously occupied by the only bank left in the area. This high street location meant that it was immediately visible to local people and had prompted her and her daughter to find out more about it.

Press advertising and other forms of publicity did not feature highly as a source of information about credit unions. Just two people remembered finding out about their credit unions in this way. In addition, although this was how they first become aware of their local credit union, it was not the only information they received. One already had a general awareness of credit unions as he had two relatives who belonged to their local schemes. Another had spoken to a neighbour who was a credit union member, shortly after she had seen an advert for it in her local paper. This suggests that this source of information alone may not be sufficient to give people enough information to make a decision about joining.

Word-of-mouth

Talking to people who were already members of a credit union was the next most significant source of information among people in the depth interviews. Just under a third had found about their credit union from family, friends or neighbours who had already joined and who encouraged them to do so. Finding out about credit unions in this way was particularly prominent among people in the city in North West England. This is likely to be because, despite being part of a large conurbation, they lived in quite a small and close-knit community. Many had lived in the area for long periods of time and some also had quite wide circles of friends and family in the area. In this context, it is not surprising that word-of-mouth featured as an important source of information.

One had several friends and neighbours who were members who spoke very highly of the credit union and advised her to join. Another had originally been told about the credit union by his mother-in-law who had joined when it was first set up. He was concerned that it would not last, however, and did not join until three years later, after he had discussed it in detail with the credit union Chairman who was also a friend and neighbour.

From schools and play-schemes

Finally, a small group of members, just under one in five, had received information about credit unions via schools and play-schemes that their children attended.

Two young lone parents had found out about their credit union when a local play-scheme tried to organise a holiday for children and their parents. They had been able to raise enough money from donations to cover the cost of taking the children away, but the parents had been unable to save up sufficient money to pay for themselves to go. The play-scheme leader contacted the local credit union and a representative explained how they could help.

Another parent attended a meeting called by her son's school to inform parents of how the credit union could help them save up the money they needed to pay for their children's first Holy Communion.

> *'... [my] youngest lad was in school and he was seven, coming up to make his first Holy Communion. [Our Priest] had a meeting and [the credit union] said, 'If you wanted to save up, you could join the credit union'.'*
>
> (40 year old woman, cohabiting with three children, credit union member)

Finally, a woman with six children whose husband suffered from a long-term disabling illness had found out about her local credit union when they set up Young Savers schemes at the school that her children attended.

3.2.2 Reasons for joining

The vast majority of people joined their credit union specifically to gain access to the services it offered, particularly as they had found it difficult to gain access to them through high street providers. In particular, people liked the combination of saving and credit that both encouraged them to put money aside and also amplified their borrowing power. Around half, however, had drawn a distinction between saving and borrowing at the time they joined their credit union, and had been attracted primarily by one or the other. It is important to note, however, that whatever people's initial motivation for joining the credit union, the majority made full use of the services on offer once they had become members.

The combination of saving and borrowing

The link between savings and loans in credit unions was perceived as a particular advantage for a number of reasons. First, it encouraged people to save regularly because saving provided access to loans, rather than simply being an end in itself. Perhaps most important, however, was that credit unions increased the value of people's savings, by offering loans of two or three times the amount people had saved.

> *'The borrowing power... I'm a constant borrower... You can borrow three times what you've got [in savings], and that, sort of, looked really appealing because sometimes you get in straits and you need a big loan.'*
>
> (44 year old woman, married with nine children, credit union member)

Several people recognised that they would never have been able to accrue the amounts of money they needed by saving alone.

> *'I know I couldn't save £1,000... so I got it [savings level] to £500, so I could get the £1,000.'*
>
> (Lone parent in mid-thirties with four children, credit union member)

Second, because access to credit was determined by people's saving record the loans were easily accessible, cheap and were made available without a credit check.

Finally, the fact that loans were, to an extent, secured on people's savings, meant people could borrow without the fear of falling into debt, as they could use their savings to pay off their loan.

> *'Because I'm saving up at the same time [as borrowing]… if I get stuck it will go and pay off my loan for me.'*
>
> (Lone parent in late twenties with one child, credit union member)

Access to loans

A number of people, mostly young couples with dependent children or lone parents, were quite clear that their original intention in joining a credit union had been to gain access to credit. For some, this was because they were in need of money and knew that they would not be able to get to credit from other sources.

> *'I knew if I went to the bank… I wouldn't be able to have a loan, but if I went to the credit union with the money I had in, I could have double what I'd [saved]. You know, I wouldn't even have got half of that from the bank.'*
>
> (Married man in late thirties with three children, credit union member)

For others, it was because credit unions offered cheaper credit than they could get from any of the other sources that were open to them. One woman in her seventies, for example, had been encouraged to join the credit union by her daughter, who had found out how much her mother was repaying on loans from a weekly-collected credit company.

While saving was obviously an important part of obtaining the loans they needed, credit union members in this group were quite clear that saving was simply a means to an end. They knew that they would never be able to save the amount of money they needed and, consequently, their primary reason for joining had been to borrow.

Access to savings facilities

A small group, mostly older women without dependants, had joined because they perceived saving to be an end in itself and were not particularly attracted by the availability of loans. Often they had a particular purpose that they wanted to save up for. One woman, for example, needed a means of saving for her son's first Holy Communion. One or two had tried to open savings accounts in the past, with a bank or building society or the Post Office, but had been unable to because they could not meet the minimum deposit requirements. Others were looking for a facility that would help and encourage them to save as they had had difficulty doing so in the past.

In fact, once they had joined the credit union, all but one of these people had made use of the loans, as well as the savings, facility.

3.2.3 *Length of credit union membership*

The people who took part in this research had been members of a community credit union for varying lengths of time, ranging from less than six months to more than ten years. Just under half of them had been members for five years or more and similar number had joined their credit union between two and five years prior to the research. A few had been members for between one and two years and only one person had been a member for less than a year. This suggests that newer credit union members may be under-represented in the depth interviews.

3.3 Borrowing from a community credit union

People who save with a community credit union are able to take out loans based on the amount of money they have in savings, and the stability of the savings history. The amounts that people can borrow are calculated as a multiple of their savings. Usually people can borrow two or three times the amount of money they have saved. There are normally restrictions on the frequency with which people can take out loans, for example, in one of the credit unions included in this research, members are only entitled to take out new loans every six months. However, people can take out 'top up' loans once they have repaid half of their current loan, without increasing the amount of their repayments.

3.3.1 *Number of loans*

Most of the credit union members in this research were very active borrowers. This is not surprising given that loans were the primary focus of most people's membership. The number of credit union loans people had taken out obviously depended on the length of their membership. The depth interviews indicated that people who had not had any credit union loans were often new members who had not yet established the savings record that would make them eligible for loans. However, as the previous section illustrated, there is clearly a small number of people who belong to credit unions because they want to save and have no interest at all in borrowing.

As most credit union members planned ahead and had already 'earmarked' the next loan they would be entitled to for a specific purpose, it was not unusual for people to move rapidly from one loan to the next, with only a short break in between them. Any gaps that people did have between loans were generally spent accruing sufficient savings for the next loan they needed. It was relatively unusual for people to be saving without a specific purpose for their next loan in mind.

3.3.2 *The amounts borrowed*

The amounts of money that people borrowed were obviously dependent on the amount they had in savings and whether or not they required a full loan or simply a top up for an existing loan. The amounts that people in the depth interviews had borrowed ranged from £50 to £2,000. The vast majority of loans, however, were for amounts between £200 and £500. A few people, all longer-term members, had borrowed in excess of £500.

3.3.3 Reasons for borrowing

People's reasons for borrowing from a community credit union were quite different to the reasons for which people applied for Budgeting Loans. They were not used to pay for the basic necessities that people tended to need Budgeting Loans for, but nor were they used for luxuries or extravagances. Credit union loans were used for a range of purposes, but they generally covered discretionary, rather than essential, spending.

The most common use of credit union loans was to cover the costs of Christmas. Indeed, some people borrowed every year for this purpose alone. Holidays, trips to visit friends or family and treats for children were also a key focus for credit union loans. Other people used them to buy clothes or furniture or to redecorate their homes. Credit unions were also sometimes used to pay for planned events and family celebrations, such as a child's christening, first Holy Communion or a wedding.

Less common uses of credit union loans were for debt consolidation, to pay a deposit on a rented flat or to buy a car that was needed for travel to and from work.

3.3.4 Views and experiences of the loan application process

In general, people had very good experiences of borrowing from credit unions. All but two depth interview respondents were happy with the application process and had not experienced any problems.

People found the actual process of requesting a loan to be simple and straightforward. Applications were made in a personal interview with one of the credit unions loan officers.

Form-filling, where it was required at all, was kept to a minimum. One of the credit unions had a computerised system which had removed the need for paper-based applications completely. This meant that after the first application had been made, only new or changed details needed to be entered rather than a whole new application started from scratch.

In addition, nearly everyone commented on how friendly and supportive credit union staff were in helping people with their applications. This made the whole process much less daunting than it might have been. In addition, it generated a strong sense that members and credit union staff were working together on applications and this was an important source of support for many people. One woman, for example, had required a loan due to the unexpected death of her son. The sensitivity with which her case was handled by staff was clearly very important to her.

> *'They were wonderful, I'll never forget that. It means a lot to you, you know, when you need it like that.'*
>
> (57 year old married woman with three children, credit union member)

The application process was also perceived to be private and unintrusive.

> *'Well, they don't ask you what you had for breakfast!! They don't ask how much you're earning. [They just ask] book number, present [savings] balance, present loan balance, the amount of loan you're paying for and if you owe anybody else money, that's like credit card or store accounts. And that's it.'*
>
> (54 year old married man, credit union member)

The outcomes of credit union loan applications were generally quick and, for most people, the whole process, from application to receipt of the money, took 2-7 days. The length of time it took for people to find out whether their application had been successful depended on the amount they required. People applying for smaller loans could be given a decision straight away as part of their application interview. Others had to wait for their application to go before a loan committee, made up of credit union staff and volunteers, that would make the decision.

Once the decision had been made, the money was generally made available to people without delay. People who were able to accept them could be given a cheque straightaway. Those who needed their loan in cash had to wait 2-3 days.

In addition, credit unions were also able to issue emergency loans in certain circumstances, sometimes in excess of the amount that people's savings entitled them to, which were available almost immediately.

> *'... any time I've needed anything they've always been there. Like recently, when I lost my son. I went in straight away, I asked for a loan and they gave it to me there and then.'*
>
> (57 year old married woman, credit union member)

It was rare for credit union loan applications to be refused, largely because people knew in advance when and how much they could borrow. However, while it had not happened to any of the people in the depth interviews, several were aware that people with very poor repayment records might be encouraged to accept less than they had applied for. In extreme circumstances they would only be offered an amount equivalent to their savings so that, in the event of non-payment, the savings could be used to repay the loan in full.

Two people in the depth interviews had, however, had bad experiences of the loan application process. Both were members of the same credit union that had required applicants, themselves, to appear before the loan committee as part of their application. They found this irritating and a waste of time.

> *'They have this procedure, if you get a loan you need to present [to the committee]... and you actually talk to them and tell them why you need the loan... and I find this really very irritating.*
>
> (39 year old widow with one child, credit union member)

They had both complained to the credit union about this procedure which had, in fact, been stopped shortly afterwards.

3.3.5 Repaying credit union loans

The amounts of money that depth interview respondents were repaying on credit union loans ranged from £2 per week on a £50 loan, to £25 per week on a loan of £2,000.

Repayment levels

The amounts were decided by respondents themselves, as part of their application, and discussed with a credit union loan officer. The terms of the loan were then set according to the level of repayment that applicants felt comfortable with. However, although credit union members had a set repayment that they had to keep to in reality, the amounts they repaid varied quite widely. As most members did with savings, the majority liked to agree a minimum repayment that they were confident they could afford, but paid more than this whenever their circumstances allowed.

> *'I've got my £500 loan out now… I pay £1 into my savings and £4 off my loan… Now at the end of the month, I might have a look at my financial situation and think, 'I've done well this month'… so I'll go at the end of the month and pay £40 off my loan.'*
>
> (Married man in late thirties, credit union member)

Also some people preferred pay off the bulk of their loan in weekly instalments and then use their savings to clear the rest.

Repayment method

We saw in Chapter 2 how positive Budgeting Loan applicants were about the fact that their repayments were deducted from their benefit before they received it. This method of repayment was not usually available to people borrowing from credit unions. While those with bank accounts can make loan repayments to the credit union by standing order, many credit union members who are in receipt of IS or income-based JSA do not have this option as they do not use current accounts. Consequently, they made loan repayments in cash by visiting the credit union.

Repayment problems

The involvement of credit union members in setting their own repayments meant that they were always at an affordable level and, consequently, few people had had problems keeping up with them.

A small group had, however, been unable to maintain their repayments at some time and had had to pay a reduced amount or miss the payment altogether. In these circumstances, they had always found the credit union to be lenient, supportive and helpful. They were encouraged to pay whatever they could afford in order to maintain the payment routine and, if necessary, loans were rescheduled to take account of these reduced repayments.

'We got a £200 loan and our problem was paying it back… and we came [to the credit union] and we sat down, and [they said], 'Well, don't panic. You pay back what you can afford. If we ask you to pay back £x and you can't afford it, we'll just drop the repayments for you, so you can afford to pay it.'

(Married man in his late thirties with three children, credit union member)

More importantly, as long as people made a reasonable attempt to address any repayment problems and keep to rescheduled agreements, their problems would not affect any future loan applications.

'It's understood that you've come in and explained… it doesn't go against you, you know, you wouldn't be blacklisted and refused a loan.'

(44 year old married woman with two children, credit union member)

3.4 Summary

Views of credit unions were generally very positive among the people who belonged to them, although some perceived them to be specifically for poor people while others believed they had wider appeal. Members had found out about their local credit union in a variety of ways, including credit unions' promotional activities or local profile, word-of-mouth and from schools or play-schemes attended by their children. Most people were attracted because they liked the linked opportunity to save and borrow. Some, mainly people with young children, had joined primarily to get loans, while a small number of older people had mainly wanted a means of saving.

Most of the people interviewed were very active borrowers and the loans they had taken out usually ranged from £200 to £500. Credit union loans were used for a number of different purposes, but generally covered discretionary rather than essential spending.

On the whole, people's experiences of taking out credit union loans were good. They found the application process simple and straightforward; staff were helpful and supportive; and they perceived the process to be private and not intrusive. Further, outcomes were generally quick and predictable, as it was rare for credit unions to refuse a loan application. However, people who had had to appear before a loan committee as part of the application process had found it very unsatisfactory.

Repayment levels ranged from £2 to £25 and were decided by borrowers themselves in discussion with the credit union loan officer. Most set them low, but aimed to pay off more if they could afford to do so. Even so, a few had been unable to maintain their repayments at some time and had found the credit union staff helpful if they had to miss a repayment altogether. Because most of them lacked a bank account, repayments tended to be made in person and in cash.

4 COMPARING THE BUDGETING LOAN SCHEME AND LOANS FROM COMMUNITY CREDIT UNIONS[8]

The previous two chapters looked separately at the Budgeting Loan scheme and community credit unions, outlining people's views of them; how and why they used them; and their experiences of doing so. These are two quite different sources of credit, with distinct origins, aims, modes of operation and target markets. Despite this, it is interesting to compare the roles that each of them plays in increasing access to credit for people claiming IS or income-based JSA, many of whom cannot access credit through high street providers.

This chapter focuses on people who make use of both of these schemes to explore the circumstances in which Budgeting Loans and credit union loans run alongside one another. The chapter starts by establishing the extent of the overlap between the two schemes. Following this, we move on to compare the characteristics of people who use one or other of them with those who use them both together, and to look at the different ways in which each scheme is used. Finally, we compare people's experiences of using Budgeting Loans or credit unions.

4.1 The extent of overlap between the Budgeting Loan scheme and credit unions

This research shows that, while there is some overlap between use of the Budgeting Loan scheme and membership of community credit unions, it is limited and occurs only among a small and quite distinct group of people.

While just under 5 million people were eligible to apply for a budgeting Loan at the time of the research, only 108,000 people were members of a community credit union. Moreover, only a third of community credit union members who responded to the self-completion survey were receiving a benefit that would make them eligible to apply for a Budgeting Loan. Fewer than half of respondents eligible to apply had actually done so, and very few of those had used the scheme since the rules were changed in April 1999. In fact, because the self-completion questionnaires were distributed only to people visiting the credit union to make payments who are, disproportionately likely to be benefit recipients, these figures will almost certainly overstate the extent of overlap between the two schemes.

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[8] The chapter draws on three sources of data:

- the self-completion survey of community credit union members;
- depth interviews with applicants to the Budgeting Loan scheme and credit union members on IS; and
- focus groups with users of each of these schemes and also with people who make use of neither of them.

The depth interviews, however, were all held in areas with a relatively large[9] and active community credit union and all were with people eligible for a Budgeting Loan. Despite this there was still little overlap in the use of these two sources of credit. A third of the 21 credit union members interviewed in depth had some experience – current or past - of the Budgeting Loan scheme, but only one of the 16 Budgeting Loan scheme applicants had ever been a member of a community credit union.

4.2 Comparing users of the two schemes

The limited overlap between use of the Budgeting Loan scheme and community credit unions becomes less surprising when we look at the characteristics of people who used each of these schemes.

4.2.1 Users of Budgeting Loans

People who only made use of the Budgeting Loan scheme were distinct, in a number of respects, both from credit union members and also from people who used both schemes. The main unifying factor was their high degree of disadvantage and vulnerability. They were far more likely to be living in circumstances that tend to be associated with hardship; the majority were affected by ill-health or disability; many had recently experienced family breakdown; and several were living in unstable circumstances.

Age and personal characteristics

People who only used Budgeting Loans were younger than credit union members. Although their ages ranged from 20 to 57, about half of the 15 people were in their early to mid-twenties. Other research has shown that younger people often have greater difficulty managing their money due to both higher levels of need than longer-established householders, and less experience of budgeting (Whyley *et al*, 1997).

A very high proportion of Budgeting Loan applicants were lone parents, many of whom were in their early twenties, with between one and eight dependent children. Two were women in their late fifties who had recently had to take on responsibility for caring for a grandchild.

Health problems

The high incidence of limiting health problems – both physical and psychological - was also striking among people who only made use of Budgeting Loans. Six of the 15 were receiving social security benefits associated with long-term sickness or disability. They suffered from a range of conditions which prevented them from taking paid employment and also restricted their daily lives in other ways. For example, one was registered blind, one had suffered a serious heart attack, another had been unable to work for ten years due to severe kidney problems and another was having treatment for cancer. In addition, one further respondent was unable to work because she was a full-time carer for her twenty-three year old disabled child.

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[9] Ranging in size from 900 to 3,000 members.

Nervous disorders were also fairly prominent among this group. A young lone parent had been unable to work for seven years because of nervous problems, a man in his thirties had been unable to work for twenty years as a result of psychiatric problems and a further three people suffered from agoraphobia which severely limited their activities.

Instability

A high proportion of people who had only made use of the Budgeting Loan scheme were living in fairly unstable circumstances. Some had recently experienced a family breakdown, which compounded their circumstances and increased their isolation.

Several were divorced or separated and one woman was caring for some of her children herself, while another child was living with her ex-partner. One had recently begun taking care of her young grandson because her daughter was in prison for drugs offences. A young lone parent had recently lost her mother and had only a very strained relationship with her father. A number also talked of family rows which meant that they had no contact with other members of their family.

In addition, some people's housing circumstances were also insecure. One of the women who had just begun caring for her grandson needed to move out of the flat she had lived in for the previous five years because she needed somewhere bigger. A young lone parent had been in her current home for just a year and was expecting an 'imminent' move at the time of the research. Another lone parent had only a temporary, two year, tenancy on her flat and was facing another move in a year's time.

4.2.2 Community credit union members on IS or income-base JSA

Credit union members who were not Budgeting Loan applicants present a stark contrast to those who were only using Budgeting Loans. Both the self-completion survey and the depth interviews indicate that, while their circumstances may be far from ideal, they were still considerably less disadvantaged than people who only made use of the Budgeting Loan scheme. The main difference was that their circumstances were more stable.

Age and personal characteristics

Credit union members on IS or income-based JSA were older than Budgeting Loan applicants, with both a wider range of ages and a smaller proportion of very young people. This confirms other research which shows that credit union members are generally middle-aged (McArthur, McGregor and Stewart, undated). Older people generally have less need of credit as they tend to already be established householders and have already purchased most of the household items they need (Whyley *et al*, 1997). In addition, the same research showed that older people, particularly pensioners have more predictable financial circumstances as their household budgets are well-established.

The other notable difference from Budgeting Loan applicants was that they were less likely to have dependent children at all and this, too, will have reduced the demands and the unpredictability of their household budgets.

In addition, although lone parents were still prominent, there were fewer among this group than among Budgeting Loan applicants. Further, the depth interviews indicate that, where people were caring for children alone, they were older than their counterparts among Budgeting Loan applicants.

Health problems

None of the people who only borrowed from credit unions suffered from a long-term or limiting illness or disability. Just one person, a married woman in her early forties, was caring for someone with a disability.

Unstable circumstances

Finally, both their family and housing circumstances were more stable than people who only used Budgeting Loans.

4.2.3 Users of both schemes

As might be expected, people who borrowed both from the Budgeting Loan scheme and from a credit union were a distinct group that occupied the middle ground between those borrowing only from one of these sources. In particular, their circumstances were more stable than other Budgeting Loan applicants, but less stable than the generality of credit union members.

Age and personal characteristics

With ages ranging from mid-twenties to early fifties, they were older than people who only used Budgeting Loans, although younger than people who only borrowed from a credit union. Although more of the people who used both schemes had dependent children than was the case among those who were only using credit unions, fewer were lone parents compared with Budgeting Loan applicants.

Health problems

Health problems were far less apparent among this group than was the case among Budgeting Loan applicants, although they were more prevalent than among people who only used credit unions. Only one of the people who borrowed from both schemes suffered from a long-term illness or disability, although two others lived with somebody else who did, and took on caring responsibilities for that person. One was a lone parent with six children whose husband suffered from a progressive, debilitating condition that meant he was unable to get out of bed and needed constant care. The other was a lone parent with four children, one of whom was disabled and for whom she received Disability Living Allowance in addition to her IS.

Unstable circumstances

Finally, while their circumstances were less stable than was the case among credit union members, people who used both schemes were experiencing less of the instability or social isolation that characterized their counterparts who only borrowed from the Budgeting Loan scheme.

4.3 Comparing use of the two schemes

The only similarity in the use of the Budgeting Loan scheme and credit unions is that both are used for borrowing. It is quite clear from this research that people do not use credit unions only for saving and then turn to the Social Fund for loans. The two schemes are, however, used for very different purposes, even among people who utilise both at the same time. This means that these two types of credit tend run parallel to one another, with little crossover between them. Further, where overlap does occur it is associated with very specific circumstances.

4.3.1 Use of the Budgeting Loan scheme

We know from Chapter 2 that people apply to the Budgeting Loan scheme in order to borrow money for essential items, such as beds, bedding an oven or a fridge, basic necessities such as paying bills and unexpected events. Although several people said they had applied for loans in order to ‘decorate’ their home, this had a very limited interpretation among Budgeting Loan applicants. They generally only wanted to make their homes habitable, by buying floor coverings, basic furniture and, occasionally, curtains. They were not applying to the Budgeting Loan scheme for loans for home improvements.

4.3.2 Use of credit union loans

On the other hand, from Chapter 3, we know that credit union loans tended to be used much more for discretionary spending. People applied to credit unions for loans to pay for Christmas, holidays, day trips and planned family events such as christenings and weddings. They were also used for clothing, redecorating and home improvements.

4.3.3 Using both together

What is striking is that even people who used both of these types of credit generally followed the same pattern, using Budgeting Loans for necessities and credit union loans for discretionary items and treats (Table 4.1).

There was, however, a small amount of overlap between the two schemes. As Table 4.1 shows, both types of loans were used for buying furniture and carpets, and for baby clothes and equipment. Yet this was not the result of random use of the two schemes, nor was it evidence of people using the Budgeting Loan scheme and credit unions in the same way. Rather, it was the result of careful decision-making to ensure that both sources of credit could be used to their full potential.

Table 4.1 Use of Budgeting Loans and credit union loans among users of both

Use of Budgeting Loans	Use of credit union loans
Beds and bedding	Christmas
Oven	Holidays and spending money
Fridge	Trips/visits to family
Washing machine	Clothes
Floor-coverings	Carpets
Furniture	Furniture
Household goods e.g. cutlery, crockery	Paying bills
Baby clothes/equipment	Baby clothes, equipment
	Redecorating
	Christening, Holy Communion

For example, a lone parent with four children had applied to both the Budgeting Loan scheme and her credit union for loans to redecorate her home. In fact, she had asked for almost exactly the same items on each application. There was a clear logic behind this. She knew, from experience, that a Budgeting Loan would enable her to buy only the cheapest and most basic items of furniture. Consequently, she was using her credit union loan to 'top up' her Budgeting Loan, so that she could afford to buy exactly what she wanted rather than only what she could afford.

> *'For the first time ever I'm actually [decorating] a room. I'm buying my own three piece suite – I've never had a brand new one. [I'm] doing it up the way I want, getting it decorated and actually choosing, instead of saying, 'I'll have to have that little cheap one there', I'm getting what I want and what I like. I've never been able to do that before.'*
>
> (Lone parent in late thirties with four children, credit union member and Social Fund applicant)

In another case, a woman needed a loan to buy baby clothes and equipment as a result of an unplanned pregnancy. She was already repaying a credit union loan and so could not take out a new loan to pay for the items she needed. Consequently, she applied to the Budgeting Loan scheme as there were no other sources of credit available to her. In the event, however, she received less than half of the amount she had applied for which left her unable to afford all the things she needed. As a result, she went back to her credit union and took out a top-up loan of £150 to add to her Budgeting Loan.

4.3.4 An advance on income versus an advance on savings

Analysis of how people use Budgeting Loans compared with their use of credit union loans provides a clear illustration of how each is perceived.

Budgeting Loans were, in reality, more of an advance on income than a form of credit. They allowed people on IS and income-based JSA to receive some of their benefit entitlement early and to have the money advanced to them deducted from future benefit payments. Budgeting Loans were largely used to pay for essential items or meet urgent needs that other people meet, either from income or by borrowing.

Credit union loans, on the other hand, were very much associated with non-essentials and special occasions that the majority of people would normally save up for. Indeed, many of the members saved with the credit union in order to get loans that exceeded their savings. And they tended to pay the same amount in each week, regardless of whether they were currently repaying a loan or topping up savings. Their loans were, in effect, an advance on savings.

4.4 Comparative experiences of borrowing from the two schemes

As well as differences in the types of people who use the two schemes and in the purposes they are used for, it is also interesting to compare people's experiences of using them. Similarities and differences in the procedures associated with borrowing from the two schemes may influence whether or not they use them and, more importantly, their perceptions of them. Particularly important, is the extent to which people understand the rules and procedures associated with applying to each scheme; how people feel about the application process and its outcomes; and their experiences of repaying loans from each of these sources. This comparison also illustrates the ways in which both schemes could be improved.

Despite basic similarities in the operation of the two schemes, there were also some major distinctions between them that had an impact on people's experiences of using them.

4.4.1 Understanding of the rules and procedures

This is the first and most basic area of difference between the Budgeting Loan scheme and community credit unions. Both schemes, in fact, have clear rules and qualifying criteria. In addition, the rules of the Budgeting Loan scheme were altered in April 1999 to make it easier for people to understand the circumstances in which they can apply. Despite this, the two schemes could not be more different in this respect.

Budgeting Loans

As noted in Chapter 2, even people who applied for a Budgeting Loan since April 1999 were not really aware of the changed rules although they *had* noticed that the application process was quicker and simpler. People who had not applied for a Budgeting Loan since the scheme was revised still believed it was operating according to its old rules and criteria.

Lack of knowledge of the rules and procedures for awarding Budgeting Loans had a number of implications for actual or potential applicants. First, uncertainty about the likelihood of a success could undermine people's confidence about applying to the scheme at all. Some people believed that they were not eligible for a Budgeting Loan even though they did, in fact, qualify. One woman in her early sixties, for example, was clearly aware of the scheme's existence, knew a great deal about it because her daughter had applied several times and had very positive views of it. Yet although she was receiving an IS top-up to her pension, she was adamant that she was not eligible to apply for a Budgeting Loan. One woman, who had submitted an application for a Budgeting Loan to buy a bed, when she really wanted the money to visit her elderly mother, explained;

> *'I'm not a dishonest person, you see… No, I don't like being dishonest. [But] there was nothing I could do about it… If they let people be honest with them, and I could say, 'I would love to go home and see my mum', [but] they wouldn't entertain that at all. The wouldn't entertain it.'*
>
> (53 year old woman, living alone, credit union member and Budgeting Loan scheme applicant)

Secondly, people did not know what they could borrow money for. There was some evidence that people were applying for loans for a wider range of purposes, and for lower priority items, than was the case prior to April 1999. Despite this, Budgeting Loan scheme was still perceived very much in terms of eligible items, such as beds, fridges and ovens, rather than as notional amounts of money. Consequently, people either did not think of applying if they needed money for some other purpose or they pretended (unnecessarily) they needed the money for some other purpose.

Thirdly, there was confusion about size of loan that could be applied for. Although some applicants knew there was a £1,000 ceiling on Budgeting Loans, many did not, and continued to apply for amounts in excess of this. Even fewer had any idea of the maximum amount that they, personally, could receive from the scheme. A particular area of confusion surrounded the circumstances in which people could apply for additional loans. Some Budgeting Loan applicants were convinced that they could apply for 'top up' loans, but had no idea when or how much they could ask for. Several others thought that it was not possible, in any circumstances, to have more than one Budgeting Loan at the same time. Consequently, confusion reigned over how and why decisions were made about the amounts of money people could receive from the scheme. The result was a continuing and pervasive belief that Budgeting Loans were, routinely, awarded for smaller amounts of money than people had applied for.

It was not, however, the rules *per se* that caused a problem, but people's lack of knowledge and understanding of them. On the whole, they were drawing on their own and other people's experience of applying to the scheme before it was revised in April 1999 and had not realised that anything had changed.

Credit union loans

Credit union members' awareness of the circumstances in which they can receive loans present a stark contrast to people's understanding of the rules relating to Budgeting Loans. In many respects, this is not surprising because the rules are both simpler and more transparent to members; they have also remained unchanged.

First, the most important determining factor in whether credit union members can borrow is their own saving behaviour. Consequently, the main criteria governing credit union lending are very visible to all members because they are, themselves, involved in establishing their own eligibility to borrow. Second, the amounts of money that credit union members can borrow are set according to a simple equation – two or three times the amount of money they have in savings.

As credit union loans are not dependent on an assessment, by a third party, of the extent to which the applicant qualifies for a loan, it is very easy for the rules of credit union lending to be communicated to applicants. Consequently, they have a good understanding of the circumstances in which they can and cannot apply for a loan and the factors that will affect their application. In addition, they always know exactly how much they are eligible to borrow and the circumstances in which they can apply for a 'top up' to their current loan.

The simplicity and visibility of the rules determining credit union loans mean that members appeared to use them with far greater confidence than is displayed by Budgeting Loan applicants. It also means that credit union loans can be relied on as an additional resource and built into people's financial planning.

> *'… It's just like a safety net. It's just, you know you don't have to worry about it… So it's a lovely feeling that, it's a nice feeling. Instead of being scared.'*
>
> (44 year old lone parent with two children, credit union member)

4.4.2 The application process

There are also important distinctions between Budgeting Loans and credit union loans in people's experiences of applying for them. It is important to recognise, however, that it is not just the differences in the application processes for these two types of credit that impact on people's experiences of them, but also their *perceptions* of the application processes.

Making the application

Since the rule changes in April 1999, Budgeting Loans, like credit union loans, are relatively easy to apply for. The broader categories and the reduction in the amount of supporting information required for Budgeting Loans means that the application form is shorter and easier to complete than had previously been the case.

Credit union application forms are often completed as part of an interview with a loan officer, while Budgeting Loans were normally filled in unaided. There was, however, no real evidence that applicants found this difficult to do. In fact, some people were deterred from credit loan applications because they required a personal visit. Budgeting Loan applications, on the other hand, could be conducted in full without the applicant ever having to leave their house. This aspect of the Budgeting Loan application process was particularly attractive to older people and those with health problems. The three agoraphobics among the Budgeting Loan applicants in this research, for example, were adamant that they would not have been able to cope with a credit union loan application if it meant visiting an office.

> *'I have always thought of going and joining the credit union, but the thought of walking from here up to the office, it's just… And if I went in there and the place was absolutely crowded, I would just take one look and I'd run.'*
>
> (57 year old woman caring for grandson, Budgeting Loan scheme applicant)

Help and support from staff

A key area of difference in the application processes for Budgeting Loans and credit union loans, however, was in the amount of help that was available for applicants.

Budgeting Loan applications, it seems, are made with little or no help from Benefits Agency staff. Only one applicant had found Benefits Agency staff helpful, and that was only when he explained that he was registered blind. In fact, many of the applicants interviewed in depth expressed surprise even at the idea that help might be available. At best people found that staff were too busy to spend time helping with Budgeting Loan applications. At worst they were described as disinterested, and even rude and patronising.

Although this is not encouraging, it did not seem to have caused many difficulties for the applicants in this research. They tended not to have experienced any major problems in completing the forms and were glad to be able to make their application without having to visit the office and queue for an appointment with staff. However, it could be that other potential applicants are put off by the lack of help and support available and never complete their application.

Credit union staff, on the other hand, played an integral role in the loan applications submitted by their members. In fact, the application process was clearly perceived, by staff and applicants alike, very much as a joint process. The involvement of staff in loan applications was highly valued by credit union members, who enjoyed the meetings. This interaction between staff and applicants had proved particularly important to people who were applying for loans due to an emergency, such as illness or a death in the family.

Staff were also viewed as an important source of advice on borrowing and people's financial situations more generally. Applicants usually welcomed the chance to discuss their application with a third party who they felt they could trust. This increased people's confidence in their decision to borrow and in coping with credit commitments.

Privacy

This is also an important area difference between credit unions and the Budgeting Loan scheme. It seems to be founded, however, more in people's perceptions, rather than the reality, of the application processes.

A common theme emerging from the interviews with Budgeting Loan applicants was that, despite the reduction in the amount of detail required on application forms, people still perceived some of the details they were required to provide to be intrusive. The process of applying for a credit union loan, however, was described as private and members, particularly those that had used both schemes, often remarked on the absence of 'personal questions'.

Yet, as with Budgeting Loan applications, credit union members are required to state their reasons for applying for a loan, and to give details of their income, expenditure and other credit commitments. In addition, Budgeting Loan applications can be done entirely by post, without the need for any face-to-face contact, while credit union members must attend a personal interview with a loan officer. It seems strange that this should be perceived to be a more private process than a remote, paper-based system.

In fact, this difference in perception relates to a number of factors. Most important of these is the relationship between the applicant and the institution they are borrowing from, which determines their beliefs in the purpose of the application process.

Most Budgeting Loan applicants, despite meeting the eligibility criteria, do not perceive themselves as having a right to a loan. In fact, the main focus of the application process, for them, is to try to convince the Benefits Agency of the extent of their need.

> *'… when you're [filling in the form] and you say, 'I'm so desperate, I need that and that', they think you're lying… I feel guilty, I don't drink, I don't smoke, I don't do bad things you know. I look after my children, when they need something I need to get it..'*
>
> (43 year old lone parent with eight children, Budgeting Loan scheme applicant.)

In fact, some clearly perceived the application process as an opportunity for Social Fund Loan Officers to find reasons *not* to award a loan. In other words, they perceive the application process as being entirely in the Social Fund's interests rather than their own.

> *'They've changed it, but I don't really know what they've changed. You can apply for more things, but they still say no. It's just made it easier for them to say no.'*
>
> (25 year old lone parent with one child, Budgeting Loan scheme applicant)

Credit union members, on the other hand, quite clearly felt that they had already established their 'right' to a loan by fulfilling the credit union's savings requirements. As a result, they had a strong perception of the loan application process as being in their own interests. Despite the fact that people are asked for details of their income, expenditure, financial commitments and reasons for borrowing they perceive these merely as 'basic questions'. More importantly, they view this as information that is collected in their interests, rather than the credit union's, in order to ensure that they can afford to repay the amount they are requesting.

Length of the process

The application processes for both the Budgeting Loan scheme and credit union loans were perceived to be quick. Most people whose applications were successful received their loan within a week of applying, whichever system they used. Despite this more of the credit union loan applicants described the application process as very quick than was the case among the Budgeting Loan applicants. Although there is little evidence to suggest that they had actually *received* their loans any quicker than those who had applied for Budgeting Loans, they did get a *decision* about their loan much earlier in the process. It is likely that this increased people's perception that the credit union loan application process was quicker than it was for Budgeting Loans.

Outcomes

Perceptions with regard to the outcomes of applications also differed. Lack of understanding of the rules of the Budgeting Loan scheme, and the fact that decisions were communicated by letter, had an important impact on applicants' feelings about the decisions made on their applications.

A high proportion of successful Budgeting Loan applicants received awards that were lower than the amounts they had applied for, usually because they were already repaying a Budgeting Loan and had not understood how much they could apply for. Others had had their applications turned down for similar reasons. Few of them, however, understood the reasons for these decisions and most believed that they had not been given any reason by the Benefits Agency.

The outcomes of credit union loan applications were different, not least because members had a much clearer idea of the circumstances in which they could apply and the amounts they were entitled to receive.

> *'… the Social Fund… would be better if you could get [the amount] you wanted off them. But you can't [always] get what you need. From the credit union, you can go in and say, 'Look I need so much', and you can get that amount.'*
>
> (40 year old woman with partner and three children, credit union member and Budgeting Loan scheme applicant)

Consequently, it is very unusual for credit union loan applications to be refused, as long as applicants have met the savings requirements. People with unstable savings or repayment records, however, may be encouraged to reduce the amount they are applying for. Where this does happen, it is discussed in the applicant's interview with the loan officer and the decisions are reached jointly. Consequently, credit union members are less likely to feel that a decision has been imposed on them or that they do not understand or agree with it.

4.4.3 Repaying loans

People's experiences of repaying Budgeting Loans and credit union loans were also quite different. In fact, each scheme had both positive points and drawbacks that had an important impact on people's experiences of using them.

The repayment method

Budgeting Loan applicants were extremely positive about the fact that repayments were deducted directly from their benefit before they received it. This reduced the hassle associated with making repayments, meant that they were not tempted to spend the money on other things and did not need to worry about the possibility of getting behind with repayments. Indeed, several Budgeting Loan applicants felt that they unable to cope with having the responsibility of making payments personally – as is often the case with credit union loans.

> *'… You have to go and pay it back, you know, got to go to the office and pay that back. And if you forget that, you know you've got to pay double next week.'*
>
> (57 year old woman caring for her grandson, Budgeting Loan scheme applicant)

While some credit unions can accept repayments by cheque or standing order from members' current or savings accounts, most people who are in receipt of IS or income-based JSA repay their loans in cash by visiting the credit union. This left them with the physical effort of making repayments themselves and the temptation to spend the money rather than pay it into the credit union. Some members saw this as a distinct drawback.

However, most also believed that making repayments in person did not cause problems for credit union members because they had other incentives to repay. First, because people had already established a routine of visiting the credit union to pay in their savings, and many people really enjoyed these visits, most had not found it difficult to establish a routine of making repayments.

> *'I was a bit nervous the first time I had a loan. I was a bit unsure whether I could make the payments and that, but I'm getting used to it. It's just… normal, everyday life. It's just like paying another bill.'*
>
> (Lone parent in late twenties with one child, credit union member and Budgeting Loan scheme applicant)

Second, the community nature of credit unions was very important to them and there was a strong sense that failing to repay a loan would be like stealing money from a neighbour. This imposed a sense of responsibility about repayment that may not otherwise have been present.

> *'People want to pay these [loans] back because they know it's their neighbour's money, in a sense. It gives them more responsibility. From my personal point of view, I know I'm borrowing from other neighbours' money if I have a loan, so I know it's got to be paid back.'*
>
> (Married woman in her forties with disabled husband, credit union member and Budgeting Loan scheme applicant).

Finally, perhaps the biggest incentive to keep up-to-date with credit union loans was the fact that future borrowing was dependent on past repayment history.

> *'I think that gives you the incentive to not default on it, because you just think, 'Well, you're not going to get this opportunity anywhere else.'*
>
> (44 year old married woman with two children, credit union member)

Repayment levels

The Budgeting Loan scheme was not as highly regarded in terms of repayments levels, however, as it was for its repayment method. Credit union members had much more positive experiences in this area than Budgeting Loan applicants.

The repayments for Budgeting Loans are determined by Benefits Agency staff and communicated to applicants as part of their loan offer. Applicants were not consulted as to whether or not the repayment levels were manageable, and repayment levels are non-negotiable. Although since April 1999 applicants are offered up to three repayment levels, the lower repayment is always associated with a smaller award.

Although most applicants were able to manage the repayments on their Budgeting Loans, a small number felt that levels were too high. Some had attempted, in the past, to get their repayment level reduced because they were in financial difficulty but had been unsuccessful. This had caused them particular difficulties because, as repayments were automatically deducted from their benefit, they did not have the option of missing the odd repayment in order to meet other financial commitments.

Credit union members, on the other hand, were encouraged to state their preferred level of repayment as part of their loan application, and the term of the loan was then set in accordance with this amount.

> *'Well the advantage is, you will always have a say in what you are going to repay… the credit union will speak to you about your loan repayments, the Social Fund won't. They [the Benefits Agency] will tell you. You tell the credit union. There is a big difference.'*
>
> (Married man in his late thirties with three children, credit union member and Budgeting Loan scheme applicant)

Most credit union members set their repayment level low, so that they knew they could afford it, with the intention of making bigger repayments whenever possible and clearing the loan more quickly. As a result, most credit union members described their repayment levels as reasonable and affordable.

Repayments for credit union loans were also more flexible than was the case with Budgeting Loans, enabling people to make higher or lower repayments in accordance with their circumstances. Further, people who had been unable to meet their repayments, had found the credit union to be both lenient and understanding.

> *'Say I missed a week's payment, well you wouldn't get hassles over it. Whereas other [sources of credit] you get a letter if you miss a payment saying, 'You owe this, you owe that'.'*
>
> (43 year old single woman, credit union member)

Consequently, they felt able to go to the credit union and admit their repayment difficulties before they got out of hand. If their financial difficulties were temporary they were encouraged to repay whatever they could afford and then revert to their original repayment level as soon as they were able. People with longer-term problems were able to have their loans rescheduled to reduce their repayments to a level they could afford.

4.5 Summary

There is very little overlap between use of the Budgeting Loan scheme and community credit unions. In part this is because community credit unions are thin on the ground and, where they exist, have fairly small numbers of members. But overlap is low even in areas where there is an active community credit union. To a large extent this is because these two rather different sources of credit are used by different groups of people and for quite different purposes.

On the whole, Budgeting Loan applicants were far more likely to be living in circumstances that tend to be associated with hardship and constrained budgets. They included many more families with children (and lone parents in particular) who had lived on benefit for extended periods of time. Unlike the credit union members who were claiming IS or income-based JSA, they included a number of people with health problems, of family breakdown and of recent house moves.

While Budgeting Loans were used for essentials (beds, cookers and washing machines), loans from credit unions were generally spent on discretionary items that other people might well save up for (Christmas, holidays and planned family events). This was the case even among the small number of people who borrowed from both sources.

Knowledge of the rules relating to Budgeting Loans was very low; while all credit union members knew that their loans were related to the amount they had saved. This was especially noticeable in relation to 'top-up' loans. Consequently, while most credit union loan applicants had received the full amount they had applied for, most of the Budgeting Loan applicants did not, because they had applied for amounts that were greater than their 'credit limit'. Moreover, they did not understand why they had received less than the amount they had applied for.

Both schemes were considered easy to apply to, even though Budgeting Loan application forms were filled in without assistance and credit union members discussed their application with a loan officer. In both cases applicants thought that their applications had been dealt with speedily. But while credit union members thought that they had a 'right' to a loan, Budgeting Loan applicants clearly did not.

Budgeting Loan applicants particularly liked the fact that repayments were deducted at source from their benefit and as this removed the responsibility for ensuring that they were made. On the other hand, credit union members did not find that responsibility a problem. There were a number of reasons for this. They knew that future loans would depend on their repayment history; they felt not repaying a loan would be like stealing from a neighbour, and they had established a regular pattern of visits to pay in savings. In addition, they were not facing as much hardship as the Budgeting Loan applicants.

One important difference was that while Budgeting Loan repayment levels were largely determined by Benefits agency staff, credit union members were able to decide how much they could afford, in discussion with the loan officer. Consequently they tended to set the amounts low, with the intention of paying more if they could.

5 OTHER CREDIT USE[10]

Almost everyone interviewed used some other form of credit, besides the Budgeting Loan scheme and loans from a credit union. Only four of the 37 people interviewed were not, currently, using some other form of credit. All of them were older people (aged between 53 and 75) who were credit union members and had used various forms of commercial credit in the past when they were younger. They all expressed a dislike of borrowing and, in contrast to most other credit union members, used credit union loans to pay for essentials such as a television licence or white goods.

Most of the other respondents only had one other credit agreement, in addition to a Budgeting Loan or a loan from their credit union. Most commonly, they were paying for goods they had bought from a mail order company or they were repaying loans from one of the weekly collected credit companies.

5.1 Mail order catalogues

The agency mail order market is dominated by five companies. Earlier research has found this was the most heavily used form of credit across all income groups, but especially so in low-income households (Berthoud and Kempson, 1992). The present research confirms this - mail order catalogues were used more widely than any other form of credit. Half of the people interviewed and half of the focus group participants were current users and most of the rest had bought things on credit through mail order at some time in the past. Levels of use were remarkably similar among Budgeting Loan applicants and credit union members. Hardly any credit union members said they had stopped using mail order since joining the credit union.

Just under half of current users were agents, who both bought things themselves and also had customers who bought from their catalogue. Indeed, three people were agents for more than one mail order company. Agents benefit in two ways. First they receive commission on all goods bought through their catalogue. And secondly, they tend to have much higher credit limits than their customers. One of the agents interviewed, for example, had a credit limit of £8,000; another had a limit of £3,000. These tend to be much higher than for any other form of credit available to people on Income Support.

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[10] This chapter draws on the interviews with Budgeting Loan scheme applicants and with credit union members, as well as the three focus groups.

Mail order agents are the key to the wide use of this form of credit, as they have every incentive to recruit their friends and family as customers and are in an ideal position to do so. One young man described his mother as the 'catalogue queen' of their neighbourhood.

On the whole, women were more likely than men to have bought things on credit through a mail order catalogue, and use of mail order was greatest in families with children. Many of the past users had stopped buying things this way when their children left home.

Most commonly, users of mail order had bought children's clothes and shoes. Although they were also used to buy bedding, household items, white goods and, less often, furniture. They were also widely used to buy presents, especially at Christmas. Budgeting Loan applicants and credit union users had bought similar things.

5.1.2 *The advantages and disadvantages of mail order*

For most people, mail order catalogues offered two main advantages: the convenience of shopping from home, and the ability to spread the costs of everyday things. Some people were attracted because they always knew how much they would pay in total for the goods they bought and because the repayments were known fixed amounts. Agents were also attracted by the commission they could earn.

On the whole, buying goods through mail order was perceived as having fewer disadvantages than other forms of commercial credit, which almost certainly explains its wide use. People were aware that goods were frequently more expensive than similar items in high street shops. They commented that this was especially so when repayments were spread over 50 weeks or more, rather than over 20 weeks. Secondly, some people were unable to become agents if they had a bad credit record. Thirdly, a minority of former users said that some of the items they had bought were of poor quality.

5.2 The alternative credit market

Earlier research has drawn a distinction between *mainstream credit* (bank loans, hire purchase, overdrafts, credit cards and store cards) and the *alternative credit market*, which comprises sources aimed particularly at people on low-incomes (Kempson *et al*, 1994; Kempson, 1996; Kempson and Whyley, 2000).

The alternative credit market comprises five quite distinct forms of credit and all five were used either by the people interviewed or by those who took part in the three focus groups. They include:

- *Weekly collected credit*, which is long-established and by far the most widely available. There are about 1,200 licensed companies that offer cash loans, sell vouchers for high street stores on credit or sell goods in instalments. Typically, these firms collect the credit repayments from their customers' homes. Most of them are small local companies or sole traders, although the market is dominated by six big companies. The largest company has around 9,000 agents across the country.

- *Rental purchase shops* (such as Crazy George's) are a relatively new phenomenon in Britain, offering white and brown goods and furniture on a rental purchase agreement. In contrast to hire purchase, goods can be repossessed if payments are missed at any time until the total price of the goods has been paid. The largest retailer had 82 outlets in Britain at the beginning of 2000, with a particularly strong presence in the North of England and Scotland.
- *Pawnbrokers*, like weekly collected credit, are a well-established source of credit. The National Pawnbrokers Association estimates that there are around 800 pawnbroking outlets in Britain. Most are small local companies with only one shop; the largest company has 40 shops in total.
- *Sell and buy-back outlets* (such as Cash Convertors) are, again, a new form of credit and are run though a franchise operation offering a sell and buy back service. In contrast to pawnbroking, customers actually sell their goods to shops such as Cash Convertors and hold the right to buy them back at an increased price within a pre-determined period of time. At the beginning of 2000, the largest company had 96 stores in Britain.
- *Loan sharks* are, strictly speaking, unlicensed lenders although the term is often used loosely to apply to any form of high-cost credit. In this report we have used it to refer purely to unlicensed lenders. It is impossible to say how many unlicensed lenders there are (Kempson and Whyley, 2000), although they are known to be widespread across low-income communities.

Altogether about a third of all the people interviewed had a current credit agreement with one of these alternative credit providers, and a further third had used them in the past. On the whole, Budgeting Loan applicants included a higher proportion of current users than there were among people who were members of a credit union. In fact, many credit union members who had stopped using the alternative credit market attributed the fact to their membership of a credit union. A similar finding was reported by a survey of credit union members in Birmingham (Feloy and Payne, 1999). While their credit union membership may have been an important factor, it was also very clear that, in contrast to the current users, their personal circumstances meant they now had less need to borrow for essentials. This is discussed in more detail below.

Unsurprisingly, given their wide availability, weekly collected credit companies were the second most commonly used after mail order. Most people had used these companies for cash loans, although a small number had bought vouchers on credit (a common way of recruiting new customers) and one woman had bought a carpet on instalments from a weekly collected credit company. A quarter of the people interviewed had current loans, with a greater proportion of these being Budgeting Loan applicants rather than credit union members.

None of the other alternative credit providers was used to anything like this extent. While there was wide awareness of rental purchase shops, especially among the people living in either Scotland or the North West of England, there were only two current users – one of these was a Budgeting Loan applicant and the other a member of a credit union. In one of the focus groups, participants said that there was widespread interest in a rental purchase shop when it first opened in their area. But that interest had waned once people had experience of the cost and terms of the agreements. A number of people had friends or family who had bought goods in this way.

People in all three focus groups said that they had pawned things in the past, but only one person had a current loan. This was a Budgeting Loan applicant who had pawned her rings. Sell and buy-back shops were also little used among the people who took part in the study. The Budgeting Loan applicant focus group included one person who had used one of these shops himself and two others who had a cousin and a friend who had done so.

There was clear evidence of loan sharks in at least three of the five fieldwork areas, with widespread reporting of both their presence and their practices. Only two of the people interviewed said they had borrowed from a loan shark. One Budgeting Loan applicant got small loans from time to time, and one credit union member had had a larger loan in the past. In addition, three people in the Budgeting Loan applicant focus group said that they had had loans from a loan shark in the past. And participants in all three focus groups knew family and friends who had borrowed in this way.

5.2.1 Who uses alternative credit?

On the whole current users tended to be young families with dependent children. Most were in their twenties or thirties. The small number of older users, aged forty or over, also had young dependent children. They included, for example, two grandmothers who were bringing up grandchildren. In contrast, past users were older and hardly any had dependent children. Although a number of past users said that they had stopped because they now belonged to a credit union, in reality these were all older people who did not have dependent children and they now had less need to borrow than in the past.

Loan sharks were widely seen as being used by people who are desperate and cannot find any other way of raising the money they need. Lone parents, in particular, were thought to be the prey of loan sharks. Having said that, the consensus of two of the three focus groups was that ‘most people’ have used a loan shark at one time or another. The exception was the credit union focus group.

5.2.2 What is alternative credit used for?

People borrowed in the alternative credit market for a wide range of different purposes. These spanned the reasons people had taken out either Budgeting Loans or loans from credit unions and also included cash to make ends meet. There were, however, important differences in the ways that different forms of alternative credit were used.

Weekly collected credit was used for a very wide range of purposes. These included: buying furniture, white goods, clothing and even a second hand car (£150); meeting the costs of Christmas and holidays; and to pay off debts or outstanding bills. On the whole, there was very little difference in the way Budgeting Loan applicants and credit union members used weekly collected credit.

Rental purchase shops were used to buy furniture, white goods and brown goods. While pawnbrokers and sell and buy-back shops were used when people needed cash – often for bills.

Loan sharks were invariably used when people needed cash quickly and had nowhere else to go. Such loans were needed in one of two sets of circumstances: small amounts to tide people over to the next benefit payment or larger amounts of money needed in an emergency or to pay bills.

In total five people had borrowed in the alternative credit market, after applying for a Budgeting Loan and failing to get the money they needed. Three people had borrowed from a weekly collected credit company. Two of these had applied for loans to decorate and furnish new homes following a relationship breakdown, but had been awarded less than the amount they had requested. One had applied for £2,000 but received only £806, the other had asked for £1,000 and had been awarded £500. Both took out loans from a well-known weekly collected credit company to meet most of the shortfall. The third case was a woman who had applied for a Budgeting Loan for a carpet. When the application was turned down she had bought the carpet from a weekly collected credit company.

In addition to these three people, one other had bought a bed from a rental purchase shop when her application for a Budgeting Loan was refused. And a woman had used a loan shark in past when her Budgeting Loan application was refused but, in view of her experiences, did not want to talk about details.

5.2.3 The advantages of alternative credit providers

There was only one widely perceived advantage of using alternative credit providers and that was their availability to people on IS. Undoubtedly, some sources were viewed more favourably than others. There was a widespread view that there is 'no shame' in using a pawnbroker as it is 'honest money'.

Others particularly liked the fact that weekly collected credit companies collect repayments – for the same reasons as they like their Budgeting Loans deducted from benefit. Loan sharks, on the other hand, were the last port of call and had nothing at all to commend them other than the fact that they would lend to people when there was nowhere else to go.

5.2.4 The disadvantages of alternative credit providers

The major disadvantage of all forms of alternative credit is its cost. Companies lending to people on IS face a much higher risk of default than do those offering credit to people who are in work and on higher incomes. As a consequence, the charges they impose reflect the costs of the steps taken to minimise the risk and to cover the higher than average levels of default.

Weekly collected credit companies not only have agents who visit customers to collect repayments but also allow, in their charges, for the fact that most loans are repaid over longer periods than the original term of the loan. They do not levy penalty charges if payments are late and will reschedule the occasional missed payment. As a consequence, people were well aware that they would end up paying back about 50 per cent more than the amount that they had borrowed. For example, one woman had taken out a £500 loan over a 50 week period and would be paying back in excess of £700; another said she would be paying £50-60 in charges on a £100 26 week loan for a TV licence. Most were unaware of the interest rate they were being charged – even though they did know the total cost.

In reality, the APRs on loans from weekly collected credit companies range between 100 per cent (for loans of £500 or more, repaid over 100 weeks) to 400-500 per cent (for a £60 loan repaid in 20 weeks) (Rowlingson, 1994).

Goods bought through rental purchase shops incur a range of charges, as well as the goods sometimes costing more than in some high street shops. As a consequence, the woman who had had her application for a Budgeting Loan refused paid a rental purchase shop £700 for a bed she could have bought for £400 elsewhere had she been able to pay cash. Others commented that the prices compared unfavourably with those charged by mail order companies.

As might be expected, loans from loan sharks were incredibly high cost. A typical short-term loan involved borrowing £20 on Friday and paying back £40 the following Monday. A friend of one of the focus group participants had borrowed £500 from a loan shark and paid back a total of around £2,000. She did not know the term of the loan, but to set it in context, a similar amount borrowed from a licensed weekly collected credit company would involve total repayments of £779.50 if repaid over 52 weeks (APR 168 per cent) or £1,000 if repaid over 100 weeks (APR 127 per cent) (Rowlingson, 1994).

Pawnbrokers were criticised for the very small amounts they were prepared to lend against the value of the goods offered as security.

> *'My wife went there with an engagement ring, and he offered her, like they cost £200, they offered her £5.'*
>
> (Participant in focus group comprising Budgeting Loan recipients)

Sell and buy-back shops were similarly criticised for paying very little for the goods they bought.

> *'They tend to give you, like, stupid prices, what they give you. Just unrealistic… My mate, they had a set of golf clubs and he went there, and it cost them, like, £180, and he took them down there and they offered bugger all, £30, they were quite new.'*
>
> (Participant in focus group comprising Budgeting Loan recipients)

This became particularly problematic when people could not afford to redeem or buy back the goods, and one retailer was particularly criticised for the fact that the buy back period was only 28 days. After that time the goods were put on sale. In some pawnbrokers, it is possible to 'back the ticket' on a pawn – which enables you to extend the loan period – but this is costly. Similarly it is possible to pay extra to sell and buy-back shops such as Cash Convertors and extend the buy-back period from the standard 28 days.

The risk of goods bought through a rental purchase shop being repossessed was perceived as a major disadvantage of this form of credit. Unlike hire purchase there is no time limit to the repossession of goods if payments on rental purchase goods are missed. And the initial enthusiasm when a rental purchase shop opened in one locality began to wane when people realised that goods were repossessed after only one missed payment.

> *'You've only got to miss one payment and they come and take the stuff back. So that's why I wouldn't use it.'*
>
> (Participant in focus group comprising credit union members on qualifying benefits)

> *'They've got no qualms. If you can't make that payment that week, they come out and take it off you. As quick as that.'*
>
> (Participant in focus group comprising people on qualifying benefits who did not have a current Budgeting Loan and were not credit union members)

The greatest problems, however, related to the use of loan sharks. We were told consistently that loan sharks hold benefit books as security for loans and meet their customers outside the post office when they collect their benefit. They then take three quarters of the benefit collected as repayment against the loan, leaving the borrower with just a quarter of their IS or JSA to live on.

'These loan sharks… they'll take 75 per cent of your money and give you the other 25 per cent and just say 'Well, it's that' and then you're back in the same boat then.'

(Participant in focus group comprising people on qualifying benefits who did not have a current Budgeting Loan and were not credit union members).

Faced with too little to live on, people turn to the Department of Social Security for crisis loans or food vouchers. This was, it seems, a fairly common occurrence in one neighbourhood and focus group participants said that everyone knew when the loan sharks 'had got someone', as they came back on the bus with Kwiksave bags, Kwiksave being the only shop where the vouchers could be spent.

There were also several accounts of the harassment and violence meted out by loan sharks if people could not afford to make the repayments.

'I know someone who went to a loan shark and because they couldn't pay it, like, they've got about seven kids, they went to the house and they beat the dad up in front of the kids.'

(Participant in focus group comprising credit union members on qualifying benefits).

5.3 Borrowing from family or friends

People mainly turn to family and friends for small amounts to tide them over from one week to the next. Mostly this is reciprocal woman to woman lending, with mothers and daughters frequently lending to one another in this way (see also Kempson *et al*, 1994).

Family and friends were, however, mentioned much less often than commercial credit for larger sums of money. Only a minority of the people interviewed had borrowed in this way. Credit union members borrowed from friends and family less often than Budgeting Loan applicants - possibly because they had less need to do so, just as they had less need to use alternative credit providers.

In contrast, people in the focus group that had borrowed from neither the Budgeting Loan scheme nor a credit union saw family and friends as an important source of credit for the unemployed. Compared with Budgeting Loan applicants and credit union members, though, they seemed to have stronger ties with their family, with many of them living nearby.

5.3.1 Who borrows from family or friends and why?

All the people who had borrowed larger sums were in their twenties or very early thirties and had young children. They had borrowed either from their parents or other older relatives because they needed cash and could not raise it in any other way.

Three people had done so because they did not get money they needed from the Budgeting Loan scheme. A lone parent had borrowed £649 from her aunt when she received only £140 from the Budgeting Loan scheme and had less than she needed for carpets and decoration. Another had turned to her mother when she was refused a loan for bedding because she was still repaying an existing Budgeting Loan. The third woman had borrowed from her mother in the past when she had been refused a Crisis Loan.

A man borrowed £100 from a friend when he was unable to draw the money out from his savings with the credit union because they did not have sufficient money on the premises. A lone mother was helped by her father, who bought her a washing machine when she was turned down for high street credit. Finally, a young mother was lent the money to buy a television licence by her mother.

5.3.2 The advantages and disadvantages of borrowing from family and friends

The obvious advantages of borrowing from family or friends are that loans are interest free and there is usually no pressure to repay in regular instalments. The exception was the young woman who had borrowed £649 from her aunt. She was repaying her £16 a fortnight, which was difficult to find.

On the other hand, most people felt that it was all too easy to put a strain on relationships by borrowing money and this was the main reason why they had rationed the amounts borrowed.

The most significant drawback, however, was that most people did not have anyone they could turn to for anything other than small loans to make ends meet. This was especially the case among the Budgeting Loan applicants.

5.4 Banking and mainstream credit

Access to banking facilities and to mainstream credit – such as bank or building society loans and overdrafts, plastic cards or hire purchase – was very limited.

About half of the people interviewed had a bank or building society account of some kind, but only a quarter had an account with a wide range of facilities. The remainder just had either a savings account or a current account with only a cash card, such as Solo, where use is authorised on each occasion. Only three people had overdraft facilities, and one of these was unwilling to use the facility in case he lost control over his finances.

There was remarkably little difference in access to banking facilities between credit union members on IS or JSA and those who had applied for a Budgeting Loan.

Similarly, neither group had much access to mainstream credit. Levels of current use were very low indeed and restricted to two people.

5.4.1 Who uses mainstream credit and why?

The only active user of mainstream credit facilities was a lone parent, who was both a member of a credit union and had a current Budgeting Loan. She had a range of facilities that included an overdraft facility, a Co-op store card she used for emergencies, such as buying children's shoes and an HP agreement with the Co-op for a bed. She was, however, claiming IS while living with a partner who worked but did not declare the £300 a week he earned.

A second lone parent, who was also a member of a credit union, had an overdraft facility from 'better times' and also a bank loan she had taken out to pay off the balances on her credit cards. She had been claiming IS and was still repaying a Budgeting Loan. She had, however, recently started to live with a new partner, and they were now claiming Working Families' Tax Credit.

A further five people (two Budgeting Loan applicants and three credit union members) had used mainstream credit in past. Most of these had had revolving credit facilities - overdrafts or plastics cards - that they had stopped using when they moved onto benefit. Some had also had HP agreements when in work, but were aware that they would not get HP again while they were not working.

5.4.2 Advantages and disadvantages of mainstream credit

The main advantage of mainstream credit was its low cost, compared with mail order and alternative credit providers. In addition, some former credit card users had found them a convenient way of paying for things – but only if they could afford to pay off the balance at the end of each month.

There were, however, three important drawbacks to mainstream credit that, together, account for the very low levels of use. First and foremost was restricted access for people who are not in work. There was little evidence of people having been refused mainstream credit, but most did not even bother to apply for loans or HP as they strongly believed that their applications would be turned down.

Secondly, there was a strong fear of using any form of revolving credit – because of the risk of spending money they could not afford to repay and getting into financial difficulties.

> *'When I was working I used to have a credit card and we found out that were always up to our necks in debt, because we would always spend on it, you know. And as soon as I left work and we got rid of the cards, we seem to, our finances seem to be better, you know. I think they are a bit of a pain, credit cards.'*
>
> (Participant in focus group comprising Budgeting Loan recipients)

Thirdly, there was a feeling that banks and other mainstream creditors were only too willing to lend to people when they were in work, but were much less sympathetic when they lost their earned income. They feared penalty charges that would disrupt their attempts to budget while on benefit and they were also worried about being 'squeezed hard' for repayments ,and ultimately of being taken to court.

> *'You can go in and you can get a loan and they'll slaughter you when you don't pay the payments back.'*
>
> (Participant in focus group comprising people on qualifying benefits who did not have a current Budgeting Loan and were not credit union members)

5.5 Deciding which sources of credit to use

Three focus groups[11] were held to explore how people decide what sources of credit to use for specific types of need. All three groups were held in an area where there was a large and active credit union and where there was also a high level of applications to the Budgeting Loan scheme. A full range of alternative providers was also available locally, including some very active loan sharks. Potentially, then, the group participants had access to all the options used by people on low incomes and we wanted to explore how they decided between them. To do this, the groups were each presented with a series of scenarios, and asked to think about the best and worse course of action in each case. Although the 'hierarchy of credit use' described above was evident in their replies, the responses varied to some extent not only according to the scenario, but also according to the group. The findings are discussed in detail below.

5.5.1 A family emergency

Scenario A: Family emergency

Mrs C has a phone call from her brother to say that their mother in Ireland is very ill.

She wants to go to Ireland straight away to see her mother but does not have enough money for the fare.

In all three groups, people overwhelmingly regarded the family as the first port of call in this type of emergency. And, perhaps more importantly, they also felt that most families would lend money in this situation if they could.

If Mrs C could not borrow the money from her family, then weekly collected credit was another possible source suggested by two of the groups – as although it is expensive, the money would be fairly easy to obtain in an emergency. Failing this, the last resort would be to borrow the money from one of the loan sharks that were very active in the area.

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[11] Group 1: people who had had a Budgeting Loan since April 1999

Group 2: community credit union members who were receiving qualifying benefits

Group 3: people on qualifying benefits who had not applied for a Budgeting Loan since April 1999 and were not credit union members. Full details of the groups are given in the appendix.

On the whole, applying to the Budgeting Loan scheme was not felt to be appropriate in this type of situation for two main reasons. First, because it was believed that the application would most likely be turned down unless one lied on the application form. And, in any case, the scheme could not respond quickly enough to urgent need.

People in the third group (neither credit union members nor current Budgeting Loan recipients) did, however, think that the Department for Social Security would provide some type of emergency help, for example a Crisis Loan, in the case of an immediate relative.

As we would expect, the group comprising credit union members suggested getting a credit union loan. The obvious drawback was that you had to be a member in the first place, and to have saved regularly for the requisite number of weeks. Even so, it was widely agreed that the credit union would lend even fairly new members at least enough money for the fare in this type of situation.

People in the third group (neither credit union members nor current Budgeting Loan recipients) came up with a number of alternative solutions. One man suggested going to the city docks to get a lift with one of the lorry drivers, although this was ardently believed to be inappropriate for a woman by one of the female participants! In response to this, another man described a nationally-run scheme that matches passengers with lifts, which he had heard about at university. Someone else said he would ask his parish priest for help. The main drawback to these alternative suggestions, as pointed out by one of the other participants, was awareness - one had to know that they were available in the first place to use them.

In fact, this group seemed to be far more creative in their suggestions than either of the other groups, and came up with similar ideas for some of the other scenarios as well. While the root of this apparent resourcefulness is difficult to pinpoint, it may partly be explained by the fact that the group included more men than the other two focus groups, who perhaps had a broader range of experiences than people in the other groups.

5.5.2 Paying for a daughter's wedding

Scenario B: Paying for a daughter's wedding

Mr D wants to give his daughter some money to pay for her wedding but doesn't have any savings.

Although the family was tentatively suggested by all three groups, on the whole people thought that a wedding was not worth borrowing money for. In fact, it was generally agreed that the daughter should save up to get married.

Similarly it was not seen as something that you would apply to the Budgeting Loan scheme for. Although one woman (in the group of current Budgeting Loan recipients) had actually successfully applied for a Budgeting Loan to get married some years ago, having stated on the application form that it was to pay off debts.

The group of credit union members, rather predictably, suggested borrowing from the credit union. Even so, some of them thought that the upper limit for loans (stated to be £1000) might not be sufficient to pay for a wedding

Again, people in the third group (neither credit union members nor current Budgeting Loan recipients) offered some alternatives to borrowing. Imbued with a strong sense of community, they were sure that most friends and neighbours would 'chip in' to help organise the wedding and reception.

5.5.3 Meeting the final instalment of a family holiday

Scenario C: Meeting the final instalment of a family holiday

Mr and Mrs E want to take their children on holiday to Butlins. They have paid the deposit and most of the payments, but the last payment is due and they do not have enough money to pay for it.

The overall message from the groups was that Mr and Mrs E would 'get the money from somewhere' as they would lose a considerable sum of money if they cancelled the holiday. However, suggestions for possible sources of credit largely depended on the amount of the last payment. £50 or less was seen as manageable – it was a sum of money that you could reasonably expect to borrow from family or friends, or that could be raised by making economies in the household budget, for example, by cutting down on the weekly food shopping.

Some people did suggest borrowing from family if the amount was more than £50. There was general agreement, however, that you would be more likely to apply to the Budgeting Loan scheme. Most people thought that, in these circumstances, you would have to lie on the application form to get a Budgeting Loan.

The third group (neither credit union members nor current Budgeting Loan recipients) thought that Social Services would take children on holiday in certain circumstances, for example if the parents were disabled. They also talked at some length about a local charity that took children to holiday homes in Scotland or Wales, and that might even lend money to people in the type of situation described in the scenario. Again this was only an option for people who knew it was available, or knew where to enquire about such services.

5.5.4 *Replacing a washing machine*

Scenario D: Replacing a washing machine

Ms A's washing machine has broken down and is beyond repair. She needs to replace it but does not have the money to buy one.

There was general consensus among two of the groups (Groups 1 and 3) that a Budgeting Loan was the most appropriate source of credit in this instance. It was notable that no-one in the credit union group mentioned the Budgeting Loan scheme, even though several of them had experience of using it in the past.

But even where a Budgeting Loan was seen as the best option, it depended on household circumstances. So, whereas a lone parent would be likely to get a loan, a single man would almost certainly be turned down and told to use the local launderette. This was considered fair, given the perceived greater need of the lone parent and the limited budget of the Social Fund.

Mail order was seen as the next best option after the Budgeting Loan scheme. It was generally thought that a washing machine bought from a catalogue would probably cost about the same as it would from a high street shop. But more importantly, the payments could be spread over time. And, in terms of weekly costs, mail order could well be cheaper than the costs involved in travelling to, and using, the nearest launderette.

People in all three groups mentioned a local scheme, run through the credit union, that sold reconditioned white goods at fairly low prices, with a ten per cent discount available to credit union members. The main drawback with this suggestion was that the scheme only accepted cash payment, and so you might still need to apply for a Budgeting Loan to pay for it. One person in the third group (neither credit union members nor current Budgeting Loan recipients) suggested that the Department of Social Security could set up a similar scheme, with the advantage that repayments could be deducted directly from people's benefit, as currently happens with Budgeting Loans.

People in the Budgeting Loan group took discussion about the comparative advantages and disadvantages of the scheme further. Several of them argued that, although the reconditioned washing machine would only cost around £70 and came with a six month guarantee, they would nonetheless prefer to buy a brand new washing machine by mail order. Not only would it come with a twelve month guarantee but they could also buy an extra five years warranty for around £30.

It was striking that borrowing from family or friends was widely viewed as inappropriate in this situation. On the one hand, because you would be quite likely to get a Budgeting Loan in this instance, some people felt it would be a waste of 'family funds'. On the other hand, a number of people considered this to be something that 'you should sort out yourself'.

5.5.5 *Borrowing £50, £250 and more than £1,000*

Scenario E: Borrowing cash amounts

Regardless of what you needed the money for, where would you go if you needed £50; £250; over £1,000?

It was clear from all three focus groups that the amounts of money people typically needed to borrow were fairly small, in fact usually less £50, for items such as food and children's clothing. In keeping with the findings from earlier research (Kempson *et al*, 1994), people were most likely to borrow this from family, friends, and neighbours. And, as in the previous scenarios, they felt that the worst course of action would be to go to a loan shark.

Although several people would ask their family if they needed to borrow £250, nearly everyone said that they would be unlikely to need the larger amounts of money, and in particular more than £1000, without knowing about it some time in advance.

Indeed, taken together these scenarios indicate that people have very clear 'credit limits' fixed in their minds when deciding where to borrow money or get credit from. So, while it is fine to borrow up to £50 from family or friends, larger amounts have to be well justified; in fact, people will usually try to get the money from another source instead.

In addition, there were a number of examples in the focus groups of how intra-family borrowing could cause problems. One man related how his brother had borrowed £2,000 from their parents to buy a car. The parents had intended to use the money to visit another son in America, but as they were getting the loan repaid in sums of £25 they simply spent the money and could not afford to go. This had obviously created considerable tension within the family.

5.6 Summary

Most people used some other form of credit alongside the Budgeting Loan scheme or loans from a credit union, although they usually had only one other credit commitment. The most common sources were goods bought on credit from a mail order catalogue and loans from one of the weekly collected credit companies.

Mail order catalogues were used in much the same way by both Budgeting Loan applicants and credit union members. Most customers were women, who bought children's shoes and clothes, as well as bedding, white goods and other household equipment. Catalogues were also widely used to spread the cost of Christmas presents. There was, therefore, some overlap both with Budgeting Loans and borrowing from a credit union. Two things attracted people to mail order catalogues: the convenience of shopping from home and the opportunity to spread the costs of buying everyday things. And they were perceived to have few disadvantages, compared with other forms of commercial credit

The *alternative credit market* comprises five distinct forms of credit: weekly collected credit, rental purchase (such as Crazy George's), pawnbrokers, sell and buy-back shops (such as Cash Convertors), and unlicensed lenders or loan sharks. All five of these had been used by people taking part in the research, although weekly collected credit was by far the most common. On the whole, users of the alternative market were young families with children and, reflecting this, there were more users among Budgeting Loan applicants than there were among credit union members. People borrowed in the alternative market for a range of different purposes. These spanned the range of reasons why people had taken out a Budgeting loan or borrowed from a credit union as well as including cash loans to make ends meet. Several people had borrowed in the secondary market, having applied for a Budgeting Loan and failing to get the money they needed. The main perceived advantage of alternative credit providers was their availability to people on Income Support, while the chief disadvantage was their cost.

Family and friends regularly helped one another out with small sums of money to make ends meet but borrowing larger sums of money was not at all common. In part, this was because many of the people interviewed did not have anyone to turn to who could afford to lend them money; in part because larger-scale borrowing was believed to put a strain on family relationships. Where it occurred, it was young people with children who had borrowed money from their parents or other older relatives. In all cases they had already tried to borrow the money elsewhere but been unsuccessful. The Social Fund was the most common source they had tried.

Access to banking facilities and to mainstream credit – such as bank or building society loans, overdrafts, plastic cards and hire purchase – was very limited indeed. There was little difference in levels of use between Budgeting Loan applicants and credit union members on IS or income-based JSA. Although perceived as low-cost, the mainstream credit was not used for three main reasons: lack of access; fear of getting into financial difficulties, associated with use of bank accounts, overdrafts and plastic cards; and fear of falling behind with payments and the penalties and debt recovery practices they would face.

When presented with a hypothetical range of needs that could not be met from the household budget, people had a clear idea of the most appropriate course of action to take. If possible, relatives would be asked for a loan in the event of a family emergency and failing that an application made to the Budgeting Loan scheme. They were unwilling to borrow for a daughter's wedding, and thought that the daughter herself should save up for the event. To find the last instalment on a pre-paid holiday, people would borrow from relatives or cut back on household spending. If they needed more money than could be raised in either of these ways, they would apply for a Budgeting Loan, but say the money was needed for something else. A Budgeting Loan was widely considered the most appropriate source to replace a washing machine, followed by buying it on instalments through a mail order catalogue.

6 SAVING[12]

Previous research has found that, although few people on low incomes have savings accounts with banks or building societies, many of them do, in fact, save small sums of money regularly. For the most part, the money is saved through a variety of informal means and, unlike money in formal savings accounts, is seldom put by for a rainy day. Instead money is 'saved up' largely for discretionary items, such as holidays, Christmas or family events. In addition, money is 'put aside' either for expected bills or for essentials such as children's clothing and shoes (Kempson, 1998).

The people interviewed for this study largely conformed to this general pattern. Most of them saved some money regularly, although very few of them saved actively in bank or building society accounts. Just about all credit union members regularly added to their savings even if the amounts were small. And, importantly, two thirds of the Budgeting Loan applicants who were not members of a credit union did save small amounts of money informally, such as putting loose change in jars. Even those that did not save, would have liked to do so if they could – especially for their children's futures and treats from them. But the needs and demands of young children often made this difficult.

6.1 Bank and building society accounts

Around half of both credit union members and Budgeting Loan applicants had an account with a bank or building society, but hardly any of them used the account to accumulate savings.

Only two of the people interviewed and one focus group member said that they actively saved in a bank or building society account and all three belonged to households that had an earned income. The first was a lone parent who was a member of a credit union and also had a current Budgeting Loan. Although she was claiming IS as a lone parent, her partner was in fact living with her and not declaring the £300 he earned a week as a window cleaner. In addition to the money she saved with the credit union, she was adding £5 a fortnight to her bank savings account, in which she had accumulated around £1,000. She was not saving for anything in particular, but simply because she had saved all her life. She also saved loose change in a jar and put it into her son's bank account every four months or so when it had mounted up.

The second person was a credit union member, a lone parent claiming IS and working as a childminder, while taking care of her own four children. The higher income disregard for childminders meant that she was able to

[12] This chapter draws on the interviews with Budgeting Loan scheme applicants and with credit union members, and also the three focus groups.

save £10 a week in an Individual Savings Account (ISA), part of which was saved first as loose change in a jar. She had £390 saved towards the cost of a holiday.

The third person was a young single man, who took part in the focus group of people who were neither credit union members nor Budgeting Loan applicants. He was a graduate and able to earn £100 a day giving occasional talks in schools. He also made some money breeding spiders and snakes. He declared his earnings but during weeks when he was able to earn money he tried to save it all in his girlfriend's savings account. He was currently saving up to go on a fishing trip.

Another man in the same group said that he had just finished paying off a loan to a weekly collected credit company. He was intending to try and save £15 a fortnight when he got his giro cheque as he had grown accustomed to managing without the money.

> *'… we've actually set a date and we're going to start doing it and try and put it in religiously… because we've just actually finished the Provi off and my payments was actually £15 so we're not really going to miss the money, all we're going to do is keep on paying that £15… we're not actually going to be any worse off but we're not actually going to be better off…'*
>
> (Participant in focus group comprising people on qualifying benefits who did not have a current Budgeting Loan and were not credit union members)

A small group of people said that they tried to retain some money in their account, rather than spend it all or overdraw. This money was generally kept for times when unanticipated expenditure (for example, on children's clothing or unexpectedly high bills) made it difficult to make ends meet. On the whole, only small amounts of money were retained for short periods of time and, as such, it was not really considered to be saving.

For example, one woman paid her benefit into a bank account so she was not tempted to spend it. She then tried to leave as much of it (between £10 and £20) in her bank account from week to week.

> *'I've got everything in the bank account so I'm not taking, taking. If it's possible I can leave £20 in the account till next week I'll do that, but there aren't any savings as such.'*
>
> (Lone mother with one child, Budgeting Loan scheme applicant)

This money was often earmarked for buying specific items, such as a coat for her daughter.

6.2 Saving with a community credit union

As regular saving is a requirement of joining a credit union it is not surprising that nearly all of the credit union members were actively saving at the time of the research. All but one of the self-completion survey respondents, and all of the credit union members who took part in the depth interviews, were adding to their credit union savings.

6.2.1 Frequency of saving

The majority of credit union members who took part in the depth interviews were regular savers, just one person – a lone parent with four children - was only adding to her savings occasionally. Most were paying into their savings on a weekly basis. The minority who were monthly savers were not distinct from weekly savers in their personal characteristics or household circumstances. However, it may be that they had previously maintained a monthly budget when they were in employment and had continued to do so after they had begun receiving benefits.

6.2.2 Patterns of saving

The depth interviews illustrate how important it is to credit union members to maintain a regular pattern of saving. Credit unions generally emphasise to their members the importance of saving something each week, however little, because once the routine is broken it can be very difficult to resume. Despite this, many credit union members had not always been able to maintain a continuous pattern of saving. More than half had lapsed in their savings at some point. Most of these were relatively young people with dependent children who found that the unpredictable nature of their expenditure sometimes meant that there was simply nothing left for saving.

> *'I've always tried to save [regularly] but there's been a few times I've not had any money. … For years… my mum has done the kids a dinner and Saturday night tea, I haven't been able to make the money last that long, most of my money goes on bills, in one hand and out the other every week.'*
>
> (Lone parent in mid-thirties, four children, credit union member)

Some were unable to save when faced with the costs of a long-term illness that affected them or somebody else in their household. While others found it difficult to maintain regular savings while also repaying their loans.

For some it was a question of missing an occasional week that could, perhaps, be rectified by saving more in subsequent weeks. Others had lapsed for longer periods of several months or even, in occasional cases, several years.

> *'There was a period when my husband was very ill and things became very difficult for us… So there was a period where, for about three years, I did hardly any saving… At that stage everything was on hold.'*
>
> (Married woman in mid-forties with disabled husband, credit union member)

Some credit union members had, however, managed to save continuously and prided themselves on never having missed a week.

> *'No, I've always… managed to save something, no matter how hard up I am. I'll always… save something. I never just go in and pay my loan. I always pay in something.'*
>
> (57 year old married woman, credit union member)

They were generally among the older credit union members. Some, in fact, were retired and therefore had the relatively stable patterns of expenditure that made regular saving possible. Others were single people or couples without children. Yet surprisingly, around half of the people who had managed to save continuously were lone parents. They tended, however, to be slightly older women, usually in their late thirties or early forties and had only one or two dependent children.

6.2.3 Amounts saved

The depth interviews indicate that the majority of credit union members on IS or income-based JSA saved between £1 and £5 a week. It was not unusual for the amounts of money that people saved to vary from week to week. In fact, a high proportion of people were unable to state precisely how much they saved, preferring to give a minimum and maximum amount.

A number of factors influenced the actual amount that people paid into the credit union. The most important was whether or not they were repaying a loan. Although maintaining and building up savings was extremely important to all credit union members, when they had current loans it was their repayments that took priority so that loans could be cleared as quickly as possible. This was partly because people disliked being in debt. More importantly, however, the more quickly they were able to clear a loan the sooner they could take out another one. Consequently, repaying a loan gave people greater flexibility in the longer term than adding to their savings.

What tended to happen in these circumstances was that people would try to pay a set amount to the credit union each week. When they had a current loan, however, the bulk of this payment would go towards repaying it and just a small amount, often the minimum possible, would be paid into savings.

> *'I just put £1 a week away when I'm paying a loan back, and when I'm not paying the loan I put a bit extra in.'*
>
> (Lone parent in late twenties with one child, credit union member)

So it was not unusual, therefore, for someone who normally saved £20 per week to drop their savings to just £2.50 per week and use the rest to repay a loan. Similarly, people who usually managed to pay £5 a week into their credit union savings might reduce this to just £1 per week when they had a loan and make repayments of £4 a week to their loan.

Savings levels also varied according to affordability. Generally people had a set minimum amount in mind – often as little as £1 per week - that they tried to save without fail. If possible, however, they would add to this if they were left with any spare money after meeting their other financial commitments.

> *'I never decide how much [to save] until I've done my shopping and then whatever's left, then you save it.'*
>
> (35 year old lone parent with one child, Budgeting Loan scheme applicant and credit union member)

The total amounts that people had managed to accrue in credit union savings accounts ranged from £25 to £2,200. The majority, however, had saved between £100 and £300. Only a quarter of credit union members in the depth interviews had more than £500 in credit union savings, and just three people had saved in excess of £1000.

6.2.4 Reasons for saving

Credit union members' reasons for saving were strikingly different to the purposes with which saving is normally associated.

They do not, in general, save up to enable themselves to buy goods or services that they would not otherwise be able to afford. In fact, drawing on savings was virtually unheard of among credit union members. Only one of the people who took part in the depth interviews perceived their credit union savings as money available for spending, and she was the only person who routinely used her savings. In fact, she drew on them whenever she needed to, and used them to pay bills, replace household items or buy presents for friends and family. She was very unusual in that she disliked borrowing and was extremely uncomfortable with the idea of owing money. Consequently, she preferred to use up her savings than to borrow.

In addition, a few credit union members occasionally transferred some money out of their savings in order to repay their loans early. They either did this because they did not like being in debt or because they wanted to clear their current loan so they could take out a new one. Even people who had not actually used their savings for this purpose, valued the fact that they had this option as a fallback should they ever need to use it.

Credit union members also do not save money in order to accrue interest on it. Credit unions do not, in fact, pay interest on savings, although if they are in credit at the end of the year each member will receive a dividend based on the amount of money they have in savings. These dividends are normally in the region of 1-4 per cent.

Indeed, virtually all the members in this research agreed that they did not perceive credit unions in terms of saving.

'I wouldn't put my money in [the credit union] if I was a… rich person… It's not for saving. It isn't actually for saving, as such.'

(44 year old married woman with nine children, credit union member)

Two people, both with other savings in interest-paying accounts outside the credit union, felt that the low returns on their money was a drawback to credit union saving. All the other members, however, agreed that receiving a return on their savings was not important.

'Well, I knew there was no interest on my money… but when I joined I wasn't worried about that… You don't get that much [interest] in the bank either… It wasn't a thing that I joined the credit union for. I didn't join it to put money in and get interest on it every month.'

(Married man in late thirties with three children, credit union member)

This was for two main reasons. First, most were only saving relatively small amounts of money and felt, therefore, that any interest they did receive would be negligible.

'If you've got a few thousand, yes, but for the likes of me, who has got a few hundred in my credit union… it didn't worry me at all.'

(Married man in late thirties with three children, credit union member)

More importantly, savings were widely perceived to be far more valuable in terms of the access they granted to credit than they were in terms of the interest they might earn. Indeed, the main reason for saving was in order to build up collateral for loans. This was the case regardless of people's original reason for joining a credit union, and even those who said that they had joined primarily because they wanted to save quickly ceased to perceive saving as a goal in itself.

In addition, while it was not unusual for people to say they were saving towards a particular expense, closer questioning always revealed that they were in fact saving in order to *borrow* the amount they needed, rather than saving until they had enough money to make the purchase outright.

6.2.5 Experiences of saving with a community credit union

In overall terms, people's experiences of saving with a credit union were very good. Several people had become regular savers for the first time in their lives and clearly found being able to save a very empowering experience. Many people wholly attributed their ability to save to the credit union. The fact that saving was so closely linked to borrowing was an important incentive in helping people to maintain their savings pattern

'It actually helps you to save. It makes you save. You've got something to go for, saving with them.'

(54 year old married man, credit union member)

However, others had found that paying money into the credit union had become such a routine that they had begun to view it as an essential expense, such as a bill that had to be paid, rather than something they chose to do.

> *'That's why I like the credit union, because there's always that temptation when the money's in your purse to spend it on something else. But because you know they've got that rule, that you've got to save… you tend to think of it as a bill anyway and you just pay it in.'*
>
> (50 year old, divorced woman with one child, credit union member)

This also meant that some people had found that they no longer missed the money they put into savings as they routinely adjusted their budget to incorporate it.

> *'You don't even miss it. I mean, I've been saving… £5 a week for, like, over three years and I've never, ever… missed that money.'*
>
> (44 year old married woman with two children, credit union member)

Two people, however, both members of the same credit union had had bad experiences of saving. They had clearly not understood that credit unions do not always hold sufficient money in reserves to allow people to withdraw money, above a certain amount, from their savings without notice. They had both tried to take money out of their savings accounts, without notice, to meet fairly pressing needs but been told that this was not possible. As a result of this misunderstanding, they had begun to perceive credit unions as unhelpful and unresponsive. More worryingly, one believed that as he had been refused access to his savings he would, in all likelihood, also be refused a loan.

6.3 Informal saving

Compared with formal saving, informal saving was very common indeed. Most credit union members and Budgeting Loan applicants saved money outside bank or building society accounts. They saved this money in a variety of ways.

6.3.1 Saving loose change

By far the most common method of informal saving was putting loose change into jars or other containers. Some people saved any small change at the end of each day; others routinely saved all coins of a particular denomination. This was done by around half of both Budgeting Loan applicants and credit union members, although in the focus groups it was more common among people who were not members of a credit union.

The amounts of money saved up in this way were not large, typically tens of pounds rather than hundreds. In fact, the most that anyone had saved was £80. But even the Budgeting Loan applicants managed to save at least a couple of pounds a week, which would have been enough for them to open a credit union account.

Because it was generally earmarked for a particular purpose, most people did not really see the money they accumulated in this way as savings. Holidays, birthdays and Christmas were a common reason for saving loose change, just as they were for saving in a credit union. A credit union member, for example, saved his loose change in a large soap powder box throughout the year. He usually managed to save around £80 which he gave to his son as spending money when they went on holiday.

In addition, saving loose change towards bills was fairly common, particularly for telephone bills where costs could not be spread. A single woman in her fifties, who was also a credit union member, saved all her 5p and 20p pieces towards paying her telephone bill.

Only five people who saved loose change put the money into a bank or building society account when it mounted up; the rest kept it in the home until it was spent. Two women, both of whom were credit union members with a Budgeting Loan, put it into their child's savings account. Apart from these two cases, money saved at home and paid into an account was used for similar purposes to other money saved informally – for holiday, for Christmas and to cover bill-payment.

6.3.2 Other informal saving

Although collecting loose change was the most common way of saving money informally, some people did save in other ways as well. These included buying savings stamps to save up for telephone bills or to buy a television licence. Savings stamps were also used to help towards the costs of Christmas. For instance, one credit union member (who also had a Budgeting Loan) and her friend swapped savings stamps from two different supermarkets in the run-up to Christmas.

Other people saved up for Christmas through special savings clubs. One woman, a credit union member who also had a Budgeting Loan, was paying into a savings club at her partner's workplace. Someone else, also a credit union member, usually paid £4 a week throughout the year into a Christmas club run by her home help; in return, she received vouchers for a range of shops just before Christmas.

A 72 year old widow paid her mobility allowance into a savings account and only drew on it when she needed to make ends meet, and several other people deliberately delayed drawing part of their income until it had mounted up. For example, a young mother had her Child Benefit paid monthly rather than weekly, '*so in a way that is mounted up*'. She tended to use this to pay her telephone bill.

Finally, several people saved up for specific purposes by giving the money to someone else. A lone mother, for instance, gave her mother a couple of pounds a week to save for her, which she then used either to pay for her son to go swimming or to take him out.

6.3.3 *Rotating savings and loans schemes*

Rotating savings and loans schemes are common among many minority ethnic groups. In African Caribbean communities these are known as 'partners' or 'sou sous' ; the Pakistani equivalents are known as 'kommittis'; and in Indian communities they are called 'kameti', 'kuri' or 'chitti'. They all work in much the same way. A group of (usually) friends agree to meet regularly and save a set amount of money. At each meeting the savings are collected, and one member receives the total amount accrued. The order in which people qualify for the payment may be pre-determined at the outset, or it may be decided by drawing lots at each meeting, with members who have already 'had their turn' being removed from the draw until everyone has done so (Kempson, 1998).

Only four people in our study were aware of such savings and loans schemes, although one of these, a Bulgarian woman, was not aware of any in this country. Indeed, it was the fact that the credit union was so similar to savings and loans schemes in her native country that had prompted her to join it.

The other three people could have joined local rotating savings and loans schemes. In fact, one African Caribbean woman joined the local partner scheme now and then whenever she felt that she could afford it; she was, in addition, a member of a credit union. The remaining two people were both deterred by the large sums of money they would regularly need to put in.

One of these was also an African Caribbean woman. She had, in the past, saved £10 with a partner scheme that had 50 members. However, she left the scheme when the payments were increased and she could no longer afford to make them. Since leaving, the payments had in fact increased still further to £20 a week. She, too, had subsequently joined a credit union instead. Even so, if the payments were lower she would consider joining a partner scheme again in the future.

The other person was a Somali refugee lone parent with eight children. She was one of the very few people who was unable to save anything, even informally. She felt that if she saved in the savings and loans club her children would suffer:

> *'The Somalis, they put a lot of money, like £50... I don't like to do that because whatever money I get a week, I spend on the children.'*

She would also worry about being unable to contribute regularly and finding it difficult to make up the missed payments.

6.4 Saving through the benefits system

As well as exploring savings behaviour in the depth interviews, the idea of being able to save through direct deductions from benefits was discussed in the focus groups

In fact, saving through the benefits system proved to be extremely unpopular with all three focus groups, and seemed to be grounded in a general wariness of dealing with the Department of Social Security any more than was necessary.

> *I have as little to do with them as I can possibly can. I go in and sign my name and I tell them what I've done and I walk out again. I have nothing to do with them.*

People would be wary even if money were deducted at source from their benefits and paid into a savings account elsewhere, for example into a credit union.

The key reason for this antipathy was that people were strongly opposed to benefits officials knowing how much they had in savings, however small the amount. In particular, participants felt that officials would question how people on benefits could afford to save. And, as a consequence, people might have their benefits reduced or stopped altogether.

In addition, one group (current Budgeting Loan recipients) thought that people with savings would be refused Budgeting Loans, on the grounds that they should use their savings instead. Underpinning all these concerns was poor knowledge of how savings can affect the amount of Budgeting Loan offered.[13]

Overall, then, saving in this way was seen to be a '*big no-no*' – as one participant put it, '*Best to be in debt and let the Dole know that you need the cash than to be ahead of yourself.*'

6.5 Summary

Although most people saved some money regularly, very few of them actively saved in a bank or building society account. If such accounts were used at all, it was to retain small amounts of unspent money for short periods of time – usually until it was needed to make ends meet.

Almost all the 22 credit union members in the study were actively saving at the time of the research, although more than half of them had lapsed at some time since becoming a member. Most of them had never saved regularly before joining the credit union. The sums saved were between £1 and £5 a week although in the majority of cases, the amount varied greatly from one week to the next. The most important influence on the amount saved was whether or not they were repaying a loan, followed by more general aspects of affordability. Some people regularly paid the same amount to the credit union and, sometimes, all of this would go

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13 The savings rules state that the amount of Budgeting Loan offered will be reduced, on a pound for pound basis, by any savings that the applicant (or their partner) has over £500 (£1,000 if either the applicant or their partner is aged 60 or over).

into savings on others some or all of it would be used to repay a loan. In contrast to other forms of saving, credit union members on IS of income-based JSA were not saving up to buy something, but as a means of gaining access to loans and to provide them with a safety net in an emergency.

Informal saving was very widespread both among Budgeting Loan applicants and credit union members. It took a variety of forms. Most common, was saving loose change at home and this money was normally earmarked for a particular purpose, such as holidays, birthdays and Christmas. Other methods of saving included: buying savings stamps to save up for telephone bills or a television licence or to buy food and presents at Christmas; Christmas savings clubs; delaying drawing benefits or other income, such as mail order catalogue commission, and giving money to someone else to hold for them.

Rotating savings and loans schemes are common among many minority ethnic groups and three of the 37 people interviewed had access to a scheme. However, none of them was able to afford the sums of money that were regularly put into the scheme by its members.

The idea of saving through the benefits system proved to be extremely unpopular, even if the money were paid into a credit union account. There were two linked reasons for this: an unwillingness to let the Benefits Agency know too much about their finances and a fear that they might be refused a Budgeting Loan if they were known to have savings.

7 CONCLUSIONS

As previous chapters have shown, most people on IS or income-based JSA *do* have a choice of credit sources, although it is largely limited to ones that are high cost and have many associated disadvantages. The Budgeting Loan scheme is, in fact, the only low-cost source of borrowing that is widely available to people claiming IS or income-based JSA.

Access to other types of low-cost credit is constrained in one way or another. People who are not working are almost certain to have applications for any form of mainstream credit rejected and do not, therefore, even bother applying. Even if they had overdraft facilities or credit or store cards when they were in employment, they almost certainly stop using them while on benefit.

Access to credit union loans is also restricted. Although there have been important developments in the past few years, the provision of community-based credit unions that are available to people who do not work remains patchy. In Britain, there are few community-based credit unions with more than 1,000 members – most are a great deal smaller. Even if there *is* a credit union available locally, not everyone on IS or income-based JSA wants, or is in a position, to join. Moreover, parents with young children who have been on a low income for some time are rarely able to save enough to qualify for the amounts of money they typically need to borrow. And once they start using high-cost commercial credit this further reduces their capacity to save.

As a consequence, only a small number of people who are eligible for Budgeting Loans are also members of a credit union. In 1998, just under 108,000 people were members of a community-based credit union (Jones, 1999). This compares with 4.69 million people who are eligible for a Budgeting Loan.

Many people who are eligible for a Budgeting Loan have friends or family who are no or little better off than themselves. So, while they may help out with small sums of money to help make ends meet, they are unable to offer to lend larger sums of money.

Only mail order catalogues and the alternative credit providers are widely available to people claiming benefit. These are, without exception, high cost and often have loan conditions that are considered undesirable, as was described in Chapter 5. They are, however, the main sources of credit for large numbers of people on IS or JSA.

7.1 How different sources of credit are used

In fact, individual sources of credit were used for rather different purposes. As we have noted in Chapter 4, Budgeting Loans tended to be used for household essentials, such as furniture and white goods and, occasionally, to pay bills. While loans from credit unions were used mainly for items of discretionary spending, like holidays and meeting the costs of Christmas or family events. There was, however, some overlap between each of them and the other sources people might have available to them, as Table 7.1 shows.

Broadly speaking, it is possible to identify four main reasons why people on IS or income-based JSA had needed to borrow money:

- to buy essentials such as household appliances, furniture or clothing;
- to pay bills;
- to meet the costs of discretionary items, such as holidays, Christmas or family events; and
- to make ends meet.

The most common reason for needing to borrow money was to spread the costs of buying essentials. This was the main use of the Budgeting Loan scheme, although weekly collected credit and mail order were also widely used. If they had a local store, some people bought furniture or white goods on rental purchase.

While many people on IS or JSA pay their gas and electricity bills through pre-payment meters, other bills such as water and telephone charges or television licenses and motor insurance cannot be spread in this way. Some people tried to put money aside for these bills, by buying savings stamps or saving loose change. Faced with a shortfall, or a bill they could not pay, there was a limited range of sources they could use. Again the Budgeting Loan scheme was one of them. The others included loans from weekly collected credit companies, pawning items of value if they had them, or selling them to a sell-and-buy-back shop with the option of buying them back within 28 days. In extremis, they turned to loan sharks.

Previous research has shown that people on low incomes spend little on discretionary items, such as holidays or days out, Christmas presents and family events and these are usually the first candidates for economies following a drop in income (Kempson, 1996). Discretionary spending was, however, the main reason why many people borrowed from a credit union. There are, however, few other sources that could be used for these purposes. Some people tried to save loose change or joined Christmas clubs. Mail order catalogues were used for presents, while loans from weekly collected credit companies were occasionally used for holidays or family events. On the whole, though, there was a resistance to borrowing for discretionary items and this is the key to the attractiveness of saving and borrowing from a credit union, as noted in Chapter 4.

Table 7.1 Purposes for which specific sources of credit and savings are used

	Budgeting Loan scheme	Credit union	Mail order	Weekly collected credit	Rental purchase	Sell and buy-back/ pawnbroker	Loan shark	Family and friends	Savings
Making ends meet						X	X	X	X
Bills	X			X		X	X	X	X
Clothing		X	X						X
Household items, including bedding	X		X	X					
White/brown goods	X		X	X	X				
Furniture, including beds	X		X	X	X				
Carpets	X								
Decorating				X					X
Home improvements		X							
Christmas/gifts		X	X	X					X
Holidays/visits to family		X		X					X
Days out/treats for children		X							X
Family events		X							X
Second-hand cars		X		X					

Finally, it is very common for people living on low incomes to need to borrow small sums of money occasionally to tide them over until the next benefit payment day. This is especially the case among families with young children (Kempson, 1996). People with no savings and needing money to make ends meet turned first of all to family or friends to help them out – usually doing so on a reciprocal arrangement. Those with no-one they could ask for small amounts either regularly pawned valuables such as jewellery or, if they had nothing to pawn, they turned to loan sharks.

7.2 A hierarchy of acceptability

There was a clear hierarchy of acceptability of the various strategies for raising the money needed for items that could not be met out of the household budget.

Hierarchy of strategies for raising money

Savings, credit union loan, friends and family

Budgeting Loan, mail order

Weekly collected credit, sell and buy-back, pawnbroker

Rental purchase, withdrawing credit union savings

Loan sharks

The most acceptable strategies were drawing on savings, taking out a loan from a credit union or borrowing from family or friends. At the other extreme, borrowing from a loan shark was, without doubt, a last resort. Borrowing from the Budgeting Loan scheme was, on the whole, seen as second best, largely because there was a reluctance to ask for money from Government, as opposed to drawing on your own resources or those of your family. Interestingly, withdrawing credit union savings was also perceived to be an unacceptable option – mainly because most credit union members on low incomes saw them as security for future loans, rather than money that could be spent.

7.3 A model of decision-making

Putting all this together, it is possible to construct a model of the decision-making process which people on low incomes deploy when they need to raise money for things they cannot meet out of their normal household budget.

First, the options they consider are constrained by access and by their knowledge of the sources to which they have access.

Secondly, they assess what sources can be used for the particular purpose for which they need the money.

Thirdly, they assess the 'credit limit' they currently have with each appropriate source available and whether or not they might need it for something else.

Fourthly, they weigh up the relative costs of raising money by each of the options actually open to them, alongside the penalties for late payment.

Finally, they think about the repayments. This includes whether or not they can afford the level of repayment offered by the creditor and also how the repayments are to be made – with a preference for methods that take some of the responsibility for repaying out of their hands.

7.3.1 Decision-making and the Budgeting Loan scheme

Applying this decision-making process to the Budgeting Loan scheme brings into focus both the strengths and the weaknesses of the revised scheme.

Access

Compared with most other sources of credit – and especially those that are low cost – there is both wide and fairly easy access to Budgeting Loans for people claiming IS or income-based JSA. The simpler form and quicker loan decision-making has undoubtedly improved access. Moreover, applying for a Budgeting Loan is beginning to be seen as less of a 'lottery' than it was before the changes.

Knowing what you can borrow for

Since April 1999, Budgeting Loan decisions are based on the applicants' circumstances and not on the need for a loan to buy a particular item. As a consequence, applications can now be made for a much wider range of purposes than was previously the case, increasing the value of the scheme to people with constrained access to commercial credit. Use is, however, constrained by poor knowledge of this change. Applicants only realise that they can now apply for loans for a wider range of items once they have taken the decision to make an application. Since knowledge of the Budgeting Loan scheme, as in most other areas of life, is acquired by word of mouth, it will take time to disseminate by this means.

Assessing remaining 'credit limit'

Potential applicants lack the information they need to assess their remaining 'credit limit' with the Budgeting Loan scheme. As a consequence, they find it harder to ration their use as they do with almost every other source open to them – including their family and friends. Moreover, Budgeting Loans are the only source of credit where applicants are quite likely to get less money than they apply for. Many people who are offered reduced amounts do not really understand why this is the case. In particular, there is very poor understanding of the rules on 'top-up' loans. The problem seems to arise because the Budgeting Loan scheme operates differently from other sources of credit that applicants are familiar with. Top-up loans from credit unions, weekly collected credit or a mail order catalogue are discussed in advance of the application. And most customers, in any case, know their limit and how much of it is still available to them because it is a much simpler calculation than the one used for Budgeting Loans.

Cost and penalties for late payment

The Budgeting Loan scheme is the only interest-free source of credit other than family and friends. It is, therefore, very popular with potential applicants, who, unless they belong to a credit union, would have to borrow at very high cost from the other sources available to them. Someone needing to replace a washing machine, for example, would pay around £400 if they bought it from a high street store using a Budgeting Loan. Buying it through a mail order catalogue and spreading the repayments over 50 weeks, it would cost them about £500. The same washing machine bought from a rental purchase outlet would cost about £600; while a 50 week loan for £400 from one of the weekly collected credit companies would cost in the region of £700. Should they need to use a loan shark (although most would not consider this for a washing machine), then the washing machine would almost certainly cost well in excess of £1,000. Without Budgeting Loans, benefit recipients needing to borrow money would be a good deal worse off financially.

Budgeting Loans are also attractive because there is no risk of incurring financial penalties for late payment – unlike credit from mainstream sources and many of the alternative providers.

Repayment levels

Although interest-free, Budgeting Loan repayment levels are often considered high especially for smaller loans, which are usually repaid over shorter periods of time. For example two of the people interviewed quoted repayments of £16 a week on loans of £600 and £500 respectively. To set this in context, this is about the same level of repayment as they would make on a £500 loan, spread over 52 weeks from a weekly collected credit company - a source of credit that they consider expensive.

Moreover, applicants can play little part in determining repayment levels. This is in marked contrast to loans from a credit union. Mail order and weekly collected credit also allow clients to determine the repayment level to some degree. But while these sources adjust the repayment level by spreading the loan over a longer period, the Budgeting Loan scheme is the only one that ties lower repayment offer to the size of loan rather than its term. Like receiving loans that are less than the amount applied for, this is a concept that people find difficult to understand, because it does not accord with their experiences of other sources of credit.

In addition, rescheduling of weekly collected credit repayments is commonplace, in recognition of the fact that most of their customers will have the occasional unexpected demands on their income. In contrast, while rescheduling is possible with Budgeting Loans, it is far from routine.

Repayment methods

Borrowing money when on a very low income is risky. What most people on low incomes fear above all else is falling behind with repayments. This is the case whether there are penalties for late or missed payments or not – although penalties make a bad situation worse. They, therefore, value loan repayment methods that enable them to keep control of their money and take away the temptation to spend the money that should be used to repay money they have borrowed. Indeed, mail order and weekly collected credit companies have recognised this fact of life and have agents who visit all their customers to collect payments. Budgeting Loans are, however, particularly valued because the repayments are deducted at source from IS or income-based JSA.

On the whole, then, the recent changes to the Budgeting Loan scheme have been a big improvement. The key areas causing problems relate to transparency regarding ‘credit limits’ and the high levels of repayment of small loans. Both of these arise from the design of the scheme and will not, therefore, be so easy to resolve.

7.3.2 Decision-making and credit union loans

An assessment of credit union loans in the light of the model of decision-making suggests that, once people have started to use them, credit union loans have more strengths than weaknesses. However, the shortcomings of credit union loans come very early in the decision-making process, and as a consequence many people do not get the opportunity to benefit from them.

The main problems with credit unions relate to the issues of access and knowledge. Despite recent growth, community credit unions still have very patchy coverage in England and Wales and most remain relatively small, particularly in comparison with work-based schemes. Consequently, many people still have no access to a community credit union at all.

Yet this research also indicates that it is not just coverage that is a barrier to more widespread use of credit unions, but also awareness of them. Even in areas that have a large and active community credit union, many people remain unaware of their existence. Further, area-based differences in the ways that people in this research found out about community credit unions need to be taken into account in campaigns designed to raise awareness and increase membership.

The other important obstacle to access to a community credit union is the requirement to save. Many people said that they 'could not afford' to join because they had no spare money available for saving. For some, particularly those with young children, this is a very real issue and saving might, in fact, be something that has to wait until later on in their lives when their financial circumstances are more stable. Other people, however, are able to save on an informal basis, and often manage to put aside amounts that are, at least, equivalent to the minimum of £1 per week that is set by most credit unions. It is possible that some of the people in this position could, with encouragement, make the transition from informal to credit union saving and, therefore, become entitled to loans.

Once people have navigated these obstacles to access, however, credit union loans have many strengths. Members have a clear perception of how these loans can be used and are easily able to assess the amounts, and the circumstances in which, they can borrow. Credit union loans are attractive because they are low cost and there are no penalties for late payment.

The fact that credit union members can suggest their own level of repayment when they apply for a loan means that they are affordable, and that many people have the option of over-paying in order to clear their loan more quickly. The lack of an automated method of repayment for people without bank accounts is a drawback for some people who were, clearly, concerned about the risk of falling into arrears. However, very few credit union members had found this problematic suggesting that, while it might be a deterrent to joining, once people have established a routine of visiting the credit union, making repayments in person is relatively easy to manage.

7.4 Future development of the Budgeting Loan scheme and community credit unions

On the whole, Budgeting Loans and loans from community credit unions are not used in conjunction with one another. They meet different needs among quite distinct groups of people. Consequently, the future development of these two schemes should not focus on whether or how they can be co-ordinated, but on what they can learn from each other. More importantly, the continuing reliance on expensive credit, such as weekly collected credit and loan sharks, among both users of Budgeting Loans and credit union loans indicates that both of these schemes need to be improved and, possibly, widened in scope.

7.4.1 Community credit unions

For community credit unions to play a wider role in meeting credit needs among recipients of IS or income-based JSA, does require, first and foremost, a widening of access to these schemes. The main obstacle to increasing membership at the moment is the fact that very few people actually have a community credit union they could join. Fewer than one per cent of the 4.69 million people current receiving IS or income-based JSA are credit union members. The movement is growing, however, and has the enthusiastic support of Government. Consequently, this obstacle may, in time, be overcome.

Helping people to save with a community credit union, however, will also be important as this is what currently prevents many people from joining. There are a number of initiatives, some of which are currently being developed among individual credit unions, that may help to achieve this. Encouraging people who save informally, perhaps by keeping coins in a jar, to put this money into a credit union savings account could help people make the transition to regular saving. In addition, savings schemes linked to particular types of expenditure, such as Christmas, holidays or school uniforms may also encourage people to start using a credit union. A more creative option would be to allow people to take out Budgeting Loans in order to open a credit union savings account. Once they had repaid the their Budgeting Loan, therefore, they could borrow two or three times this amount from the credit union.

There may also be potential for community credit unions to offer small loans to people before they have begun saving to see whether they can continue to save after they have repaid their loan. In addition, a few credit unions have begun ‘buying out’ other debts, particularly from weekly collected credit companies, so that people can repay these loans at a lower rate and being to save at the same time. Clearly, however, community credit unions’ first responsibilities are to their members and these schemes can only be introduced if they do not undermine the common bond or risk the stability of the organisation.

7.4.2 *The Budgeting Loan scheme*

Applying the model of decision-making to the Budgeting Loan scheme indicates that increasing its effectiveness is less a question of widening access than of making it easier to use.

It has been argued that Budgeting Loans should be extended to other groups, such as people in low-paid work. Apart from the many practical problems that are associated with doing this, it raises important questions about the most effective use of limited resources. It is, on one level, desirable for interest-free loans to be made more widely available. Yet unless this is accompanied by an increase in the Social Fund budget, the net result would be a reduction in help for the most vulnerable people in society.

Further, while people with low employment incomes may have *limited* access to mainstream sources of credit, they are still likely to be able to borrow money for the types of essential needs that Budgeting Loans are used for by using hire purchase or store cards. This research indicates, however, that recipients of IS or income-based JSA have very little, if any, access to mainstream credit and are forced to use high-cost, alternative sources. The extent of unmet needs for credit that remains among this group provides a strong argument for concentrating resources among them.

The Budgeting Loan scheme could, however, be made more accessible so that it could be used to its full potential. First, improving awareness and understanding of its rules and decision-making process would enable people to make much more effective use of Budgeting Loans. Communicating the fact that the scheme is no longer linked to needs for particular items will be an important starting point. However, unless people have some way of assessing their own 'credit limit' they will not be able to make fully-informed decisions about when and how much to apply for. Further, being unable to find out, or judge for themselves, the likelihood of an application being successful in securing the full amount they require, will also undermine their decision-making.

Letting all applicants know *in advance* how much they are eligible to receive in Budgeting Loans, and when they can apply for further loans, would give them the security they need to plan ahead. It would also reduce administrative costs if fewer people deliberately increase the amounts they apply for in the expectation of getting less.

The other key area in which the Budgeting Loan scheme could be improved relates to the repayment process. While people are extremely positive about the method of repayment, they find the levels too high and the system too inflexible. Given that repayment levels are set to ensure that loans are repaid as quickly as possible so that the money is available to other applicants, it may be difficult to reduce them.

An alternative might be to simply make the system more flexible so that, in times of particular financial constraint, it is easier to miss a payment than at present. This method of working has proved very successful for weekly collected credit companies who often set repayments at similar levels.

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56.	Confidentiality: The public view	0 11 762434 9	£25.00
57.	Helping Disabled Workers	0 11 762440 3	£25.00
58.	Employers' Pension Provision 1994	0 11 762443 8	£30.00
59.	Delivering Social Security: A cross–national study	0 11 762447 0	£35.00
60.	A Comparative Study of Housing Allowances	0 11 762448 9	£26.00
61.	Lone Parents, Work and Benefits	0 11 762450 0	£25.00
62.	Unemployment and Jobseeking	0 11 762452 7	£30.00
63.	Exploring Customer Satisfaction	0 11 762468 3	£20.00
64.	Social Security Fraud: The role of penalties	0 11 762471 3	£30.00
65.	Customer Contact with the Benefits Agency	0 11 762533 7	£30.00
66.	Pension Scheme Inquiries and Disputes	0 11 762534 5	£30.00
67.	Maternity Rights and Benefits in Britain	0 11 762536 1	£35.00
68.	Claimants' Perceptions of the Claim Process	0 11 762541 8	£23.00
69.	Delivering Benefits to Unemployed People	0 11 762553 1	£27.00

70.	Delivering Benefits to Unemployed 16–17 year olds	0 11 762557 4	£20.00
71.	Stepping–Stones to Employment	0 11 762568 X	£27.00
72.	Dynamics of Retirement	0 11 762571 X	£36.00
73.	Unemployment and Jobseeking before Jobseeker's Allowance	0 11 762576 0	£34.00
74.	Customer views on Service Delivery in the Child Support Agency	0 11 762583 3	£27.00
75.	Experiences of Occupational Pension Scheme Wind–Up	0 11 762584 1	£27.00
76.	Recruiting Long–Term Unemployed People	0 11 762585 X	£27.00
77.	What Happens to Lone Parents	0 11 762598 3	£31.00
78.	Lone Parents Lives	0 11 762598 1	£34.00
79.	Moving into Work: Bridging Housing Costs	0 11 762599 X	£33.00
80.	Lone Parents on the Margins of Work	1 84123 000 6	£26.00
81.	The Role of Pension Scheme Trustees	1 84123 001 4	£28.00
82.	Pension Scheme Investment Policies	1 84123 002 2	£28.00
83.	Pensions and Retirement Planning	1 84123 003 0	£28.00
84.	Self–Employed People and National Insurance Contributions	1 84123 004 9	£28.00
85.	Getting the Message Across	1 84123 052 9	£26.00
86.	Leaving Incapacity Benefit	1 84123 087 1	£34.00
87.	Unemployment and Jobseeking: Two Years On	1 84123 088 X	£38.00
88.	Attitudes to the Welfare State and the Response to Reform	1 84123 098 7	£36.00
89.	New Deal for Lone Parents: Evaluation of Innovative Schemes	1 84123 101 0	£26.00
90.	Modernising service delivery: The Lone Parent Prototype	1 84123 103 7	£26.00
91.	Housing Benefit exceptional hardship payments	1 84123 104 5	£26.00
92.	New Deal for Lone Parents: Learning from the Prototype Areas	1 84123 107 X	£29.00
93.	Housing Benefit and Supported Accommodation	1 84123 118 5	£31.50

94.	Disability in Great Britain	1 84123 119 3	£35.00
95.	Low paid work in Britain	1 84123 120 7	£37.00
96.	Keeping in touch with the Labour Market	1 84123 126 6	£28.50
97.	Housing Benefit and Council Tax Benefit delivery: Claimant experiences	1 84123 127 4	£24.00
98.	Employers' Pension Provision 1996	1 84123 138 X	£31.50
99.	Unemployment and jobseeking after the introduction of Jobseeker's Allowance	1 84123 146 0	£33.00
100.	Overcoming barriers: Older people and Income Support	1 84123 148 7	£29.00
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104.	Modernising Service Delivery: The Integrated Services Prototype	1 84123 162 2	£27.00
105.	Helping pensioners: Evaluation of the Income Support Pilots	1 84123 164 9	£30.00
106.	New Deal for disabled people: Early implementation	1 84123 165 7	£39.50
107.	Parents and employment: An analysis of low income families in the British Household Panel Survey	1 84123 167 3	£28.50
108.	Evaluation of the New Deal for Lone Parents: Early lessons from the Phase One Prototype Synthesis Report	1 84123 187 8	£27.50
109.	Evaluation of the New Deal for Lone Parents: Early lessons from the Phase One Prototype Findings of Surveys	1 84123 3190 8	£42.50
110.	Evaluation of the New Deal for Lone Parents: Early lessons from the Phase One Prototype Cost-benefit and econometric analyses	1 84123 188 6	£29.50
111.	Understanding the Impact of Jobseeker's Allowance	1 84123 192 4	£37.50
112.	The First Effects of Earnings Top-up	1 84123 193 2	£39.50

113. Piloting change: Interim Qualitative Findings from the Earnings Top-up Evaluation	1 84123 194 0	£28.50
114. Building Up Pension Rights	1 84123 195 9	£33.50
115. Prospects of part-time work: The impact of the Back to Work Bonus	1 84123 196 7	£29.00
116. Evaluating Jobseeker's Allowance	1 84123 197 5	£16.00
117. Pensions and divorce: The 1998 Survey	1 84123 198 3	£36.00
118. Pensions and divorce: Exploring financial settlements	1 84123 199 1	£24.00
119. Local Authorities and Benefit Overpayments	1 84123 200 9	£26.50
120. Lifetime Experiences of Self-Employment	1 84123 218 1	£31.50
121. Evaluation of the Pension Power Power for you Helpline	1 84123 221 1	£28.50
122. Lone Parents and Personal Advisers: Roles and Relationships	1 84123 242 4	£29.00
123. Employers Pension Provision	1 84123 269 6	£35.00
124. The Changing Role of the Occupational Pension Scheme Trustee	1 84123 267 X	£25.00
Social Security Research Yearbook 1990–91	0 11 761747 4	£8.00
Social Security Research Yearbook 1991–92	0 11 761833 0	£12.00
Social Security Research Yearbook 1992–93	0 11 762150 1	£13.75
Social Security Research Yearbook 1993–94	0 11 762302 4	£16.50
Social Security Research Yearbook 1994–95	0 11 762362 8	£20.00
Social Security Research Yearbook 1995–96	0 11 761446 2	£20.00
Social Security Research Yearbook 1996–97	0 11 762570 1	£27.00
Social Security Research Yearbook 1997–98	1 84123 086 3	£34.00
Social Security Research Yearbook 1998–99	1 84123 161 4	£30.00

Further information regarding the content of the above may be obtained from:

Department of Social Security
Attn. Keith Watson
Social Research Branch
Analytical Services Division 5
4-26 Adelphi
1–11 John Adam Street
London WC2N 6HT

Depth interviews

The depth interviews comprised people from two samples of different groups, which were drawn in different ways.

Group 1 Budgeting Loan scheme applicants

This group was selected from official records of people with current Budgeting Loans that had been taken out between April 1999 (when the rules changes came into force) and October 1999.

The sample was drawn from two localities:

- an area in Scotland with high numbers of Budgeting Loan scheme applications;
- an area in London with low numbers of Budgeting Loan scheme applications.

Both areas had community credit unions. In Scotland, the credit union was very active, and had 1,575 members. The credit union in London was church-based and had 549 members.

Each person in the sample was sent a letter giving them the opportunity to opt-out of the research. Those who did not return the opt-out letter were approached by interviewers from the research team.

The addresses of 55 people were issued to the interviewers, from which:

- 16 people were interviewed;
- 18 people refused to be interviewed (this includes appointments made and subsequently broken);
- 21 people were not contacted (up to four attempts were made to contact each of these).

The interviews with Budgeting Loan scheme applicants were conducted using a topic guide, a copy of which is attached. The subjects covered included: attitudes to, and use of, the Budgeting Loan scheme; knowledge and experience of community credit unions; other sources of credit used; and saving. The interviews were tape-recorded, fully transcribed and analysed using thematic qualitative grids.

Group 2 Community credit union members

The three credit unions, from which the sample of members was drawn, were selected as being amongst the largest and most active of those registered. Of the three:

- one is located in the north west of England, in an area with high numbers of Budgeting Loan scheme applications, and has 1,599 members;
- the second is situated in an inner London area with relatively low numbers of Budgeting Loan scheme applications, and has 3,069 members;
- the third is in a small town in the Midlands and has 892 members.

The sample of members was selected through the administration of a self-completion questionnaire, a copy of which is attached. The questionnaires were distributed by credit union loan officers to people visiting the credit union to pay in savings or repay loans. As such, the respondents represent the most active members of fairly active credit unions, and therefore may well not be representative of credit union members as a whole.

The credit union members interviewed were all receiving IS or income-based JSA; some of them were also repaying a Budgeting Loan at the time of the interview. In fact, in drawing the sample we looked particularly for credit union members who currently had a Budgeting Loan. Consequently, the sample is not necessarily representative of people on IS or income-based JSA.

Of the 250[14] self-completion questionnaire distributed through the credit unions, 100 were returned. Of these:

- 31 people were on IS or income-based JSA; and
- 21 of these people were interviewed.

The interviews with credit union members were conducted using a topic guide, a copy of which is attached. The subjects covered included: views of credit unions; saving and borrowing with the credit union; other sources of credit used, including Budgeting Loans; and saving outside the credit union. The interviews were tape-recorded, fully transcribed and analysed using thematic qualitative grids.

Total depth interview sample

In total, then, 37 people were interviewed in depth, of whom:

- 15 had a current Budgeting Loan only;
- 17 were members of a community credit union, who were not currently repaying a Budgeting Loan and had not had a Budgeting Loan since April 1999;
- 5 were credit union members who had also had a Budgeting Loan between April 1999 and October 1999.

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[14] Estimated number.

Focus groups

Three focus groups were recruited in an area that had a very active credit union, as well as high numbers of Budgeting Loan scheme applications.

The focus group participants were all receiving either IS or income-based JSA, including retirement pensioners on IS; each group comprised people of different ages and circumstances.

The focus groups were selected to give:

- one group of 8 people who were currently repaying a Budgeting Loan;
- one group of 7 credit union members who were currently repaying a credit union loan;
- one group of 7 people who were neither repaying a Budgeting Loan, nor were they members of the credit union.

The focus groups were conducted with the aid of a topic guide, a copy of which is attached. The subjects covered included: perceptions and use of different types of credit; decision-making around credit use; and saving. The interviews were tape-recorded, fully transcribed and analysed using thematic qualitative grids.

Social Fund Budgeting Loan scheme and community credit unions

Topic guide for SFBLs applicants

AIMS OF THE STUDY

- To provide information about SFBL applicants and community credit union members;
- To provide details of knowledge, views and experiences of SFBLs;
- To provide details of knowledge, views and experiences of community credit unions;
- To provide information on the features of the SFBLs or community credit unions that encourage or discourage people to use them;
- To explore any overlap between use of the SFBLs, community credit union membership and other sources of credit.

INTRODUCTION

PFRC – independent research centre at Bristol University.

COMPLETELY CONFIDENTIAL no information will be passed to anyone else, nobody else will know who has taken part in the research and they won't be identifiable in any reports that are produced.

Research aims to find out more about people who use the SFBLs and their views and experiences of using it.

- Funded by DSS
- Report to be published in Autumn 2000

Personal details

- age
- family circumstances
- tenure – recent/likely changes
- employment status – recent/future changes
- benefit receipt

Social Fund Budgeting Loan scheme

SFBLs
- knowledge of scheme
- how/where found out
- services – what offered/to whom
- total number of loans received from scheme
- number of refused applications
- where else tried for money
- views of SFBLs

Current loan

Details
- when applied
- amount applied for
- reason for applying

Application process
- experience of application process
- problems with application
- help received/role of Benefits Agency staff
- views of application process – incentive/ disincentive to use of scheme
- comparison with pre-April 1999 applications

Outcome	- amount applied for
	- amount received
	- what used for – probe if different to what applied for
	- views of outcome – incentive/disincentive to use scheme
	- comparison with pre-April 1999 applications
Repayments	- terms – amount/frequency
	- experience of making repayments - changes over time
	- problems with repayment and how dealt with
	- view of repayment process – incentive/disincentive to borrowing
	- comparison with pre-April 1999 loans

Community credit unions

Community credit unions	- knowledge of community credit unions
	- when/how found out about
	- views on CCU – who for/what purpose
Membership	- whether have joined/thought about joining
	- reasons for joining/thinking about joining
	- reasons for not joining

Credit union saving (if a member)

Credit union members	- whether currently saving
	- how long saving for
	- reason for saving
	- actual use of savings
Credit union savings	- amount
	- frequency
	- breaks/changes over time
	- total savings – maximum/minimum
	- experience of saving - problems
Returns on savings	- any interest/dividend received
	- views on returns
	- comparison with other forms of saving
	- importance of returns - incentive/disincentive to save?

Credit union borrowing (if a member)

Borrowing	- whether taken out loans
	- reasons for borrowing/not borrowing
	- total number of loans since joined
Check	- *loan in last six months?*
Current/most recent loan	
Details	- when
	- amount
	- reason for borrowing
	- use of loan (probe if different)
Application process	- experience of application process
	- problems with application
	- help received/role of CCU staff
	- views of application process – incentive/disincentive to borrowing

Repayments
- terms – amount/frequency
- experience of making repayments - changes over time
- problems with repayment and how dealt with
- view of repayment process – incentive/disincentive to borrowing

Banking facilities

Do you have a bank or building society account, either in your own name or jointly with someone else? If no, check whether ever had an account, why/when closed etc.

If yes, does the account have an overdraft facility?

PROBE
- use it/ever used it
- used in last six months
- currently overdrawn?

Other sources of credit

Probe for each
- *have now?*
- *ever had?*
- *used in last 6 months?*
- *changed level or pattern of use since joined the credit union?*

SHOW CARD 1

Credit card
Store card
Mail order catalogue
Hire purchase agreement
Loan where repayments are collected from your home
Loan from a bank or building society
Loan from friends or family
Other – specify

Credit use in last 6 months
- reasons for using
- amount borrowed
- repayments- amount/term
- why used this source
- how decided to use this source
- advantages of this source of credit
- disadvantages of this source of credit

Advantages of credit union loans
- in comparison with SFBLs
- in comparison with other sources of credit

Disadvantages of credit union loans
- in comparison with SFBLs
- in comparison with other sources of credit

Advantages of SFBLs
- in comparison with other sources of credit

Disadvantages of SFBLs
- in comparison with other sources of credit

Decision-making about sources of credit
- factors taken into account
- availability, cost, type of expenditure, ease of access

Other savings

Probe for each
- *currently save in this way?*
- *how much/how frequently save*
- *how long been saving in this way*
- *reasons for using this method of saving*
- *what saving for (probe if different to credit union saving)*
- *ever saved in this way/why stopped?*

Other savings outside credit union	-	bank/building society account
	-	Post Office account
	-	Savings scheme – Christmas club, savings stamps etc
Informal savings	-	money in jars/envelopes at home
	-	overpaying pre-payment meters
	-	letting Child Benefit mount up etc
	-	any other ways

Total amount currently held in savings (SHOW CARD 2)

Comparison with credit union saving	-	changed level or pattern of saving since joined the credit union?
	-	advantages compared with credit union
	-	disadvantages compared with credit union

Income

Main sources of household income (SHOW CARD 3)

Total amount received (SHOWCARD 4)

Recent/likely changes to source/level of income

Conclusion

Is there anything else you'd like to add about the things we've been talking about?

CLOSE INTERVIEW AND THANK RESPONDENT FOR THEIR TIME AND HELP

Social Fund Budgeting Loan scheme and community credit unions

Topic guide for community credit union members

AIMS OF THE STUDY

- To provide information about SFBL applicants and community credit union members;
- To provide details of knowledge, views and experiences of SFBLs;
- To provide details of knowledge, views and experiences of community credit unions;
- To provide information on the features of the SFBLs or community credit unions that encourage or discourage people to use them;
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- Funded by DSS
- Report to be published in Autumn 2000

Personal details

- age
- family circumstances
- tenure – recent/likely changes
- employment status – recent/future changes
- benefit receipt

Community credit unions

Community credit union	-	when found out about
	-	how found out
	-	reasons for joining
	-	length of membership
	-	views on CCU - who/for what purpose
Credit union savings	-	how long saving for
	-	whether currently saving
	-	reason for saving
	-	actual use of savings

Credit union savings

Savings	-	amount
	-	frequency
	-	breaks/changes over time
	-	total savings - maximum/minimum
	-	experience of saving - problems
Returns on savings	-	any interest/dividend received
	-	views on returns
	-	comparison with other forms of saving
	-	importance of returns - incentive/disincentive to save?

Credit union borrowing

Borrowing	-	whether taken out loans
	-	reasons for borrowing/not borrowing
	-	total number of loans since joined
Check	-	*loan in last six months?*

Current/most recent loan

Details	-	when
	-	amount
	-	reason for borrowing
	-	use of loan (probe if different)
Application process	-	experience of application process
	-	problems with application
	-	help received/role of CCU staff
	-	views of application process – incentive/disincentive to borrowing
Repayments	-	terms – amount/frequency
	-	experience of making repayments - changes over time
	-	problems with repayment and how dealt with
	-	view of repayment process – incentive/disincentive to borrowing

Social Fund Budgeting Loan scheme

SFBLs	-	knowledge of scheme
	-	how/where found out
	-	services – what offered/to whom
	-	view of SFBLs
Use of SFBLs	-	whether applied/thought about applying
	-	reasons for applying/not applying
	-	total number of applications
Check	-	*application since April 1999?*
	-	total number of loans
Check	-	*loan since April 1999?*

Current/most recent application

Details	-	when
	-	amount applied for
	-	reason for applying
Application process	-	experience of application process
	-	problems with application
	-	help received/role of Benefits Agency staff
	-	views of application process – incentive/disincentive to use of scheme
	-	comparison with pre-April 1999 applications
	-	outcome

Successful applications

Successful applications
- amount applied for
- amount received
- what used for – probe if different to what applied for
- views of outcome – incentive/disincentive to use scheme
- comparison with pre-April 1999 applications

Repayments
- terms – amount/frequency
- experience of making repayments - changes over time
- problems with repayment and how dealt with
- view of repayment process – incentive/disincentive to borrowing
- comparison with pre-April 1999 loans

Unsuccessful applications

Rejections
- reason for rejection
- views on outcome – incentive/disincentive to use
- comparison with pre-April 1999 applications
- where else tried for money

Banking facilities

Do you have a bank or building society account, either in your own name or jointly with someone else? If no, check whether ever had an account, why/when closed etc.

If yes, does the account have an overdraft facility?

PROBE
- use it/ever used it
- currently overdrawn?

Other sources of credit

Probe for each
- *have now?*
- *ever had?*
- *used in last 6 months?*
- *changed level or pattern of use since joined the credit union?*

SHOW CARD 1

Credit card

Store card

Mail order catalogue

Hire purchase agreement

Loan where repayments are collected from your home

Loan from a bank or building society

Loan from friends or family

Other – specify

Credit use in last 6 months	- reasons for using
	- amount borrowed
	- repayments- amount/term
	- why used this source
	- how decided to use this source
	- advantages of this source of credit
	- disadvantages of this source of credit
Advantages of credit union loans	- in comparison with SFBLs
	- in comparison with other sources of credit
Disadvantages of credit union loans	- in comparison with SFBLs
	- in comparison with other sources of credit
Advantages of SFBLs	- in comparison with other sources of credit
Disadvantages of SFBLs	- in comparison with other sources of credit
Decision-making about sources of credit	- factors taken into account
	- availability, cost, type of expenditure, ease of access

Other savings

Probe for each	- *currently save in this way?*
	- *how much/how frequently save*
	- *how long been saving in this way*
	- *reasons for using this method of saving*
	- *what saving for (probe if different to credit union saving)*
	- *ever saved in this way/why stopped?*
Other savings outside credit union	- bank/building society account
	- Post Office account
	- Savings scheme – Christmas club, savings stamps etc
Informal savings	- money in jars/envelopes at home
	- overpaying pre-payment meters
	- letting Child Benefit mount up etc
	- any other ways

Total amount currently held in savings (SHOWCARD 2)

Comparison with credit union saving	- changed level or pattern of saving since joined the credit union?
	- advantages compared with credit union
	- disadvantages compared with credit union

Income

Main sources of household income (SHOW CARD 3)

Total amount received (SHOWCARD 4)

Recent/likely changes to source/level of income

Conclusion

Is there anything else you'd like to add about the things we've been talking about?

CLOSE INTERVIEW AND THANK RESPONDENT FOR THEIR TIME AND HELP

Social Fund Budgeting Loan scheme and community credit unions

Focus group topic guide

Introductions

- Name, age, household circumstances, working / not working

Credit union group only

- How long a member
- Save / borrow / both?
- Check for knowledge and experience of the SFBL scheme

Non-credit union group only

- Check for knowledge and experience of credit union
- Check for knowledge and experience of SFBL scheme

Social Fund group only

- Check for knowledge and experience of credit union
- Check for use of SFBL scheme

Perceptions about credit

What types of credit available in Speke for people like them?

What types of credit are <u>not</u> available and why?

- would they use if they could? Why / why not?
- (who available to?)

Experience of using different types of credit

- present and past use
- changes in use and reasons

CHECK FOR EACH OF FOLLOWING IF NOT MENTIONED:

- Credit or store card
- Mail order catalogue
- Hire purchase agreement
- Loan where repayments are collected from your home
- Loan from a bank or building society
- Loan from a credit union
- Other, such as pawnbroker, Crazy George's

Views of different types of credit

- companies and representatives, including marketing
- cost
- terms
- good and bad things about each type of credit

Uses of different types of credit

[need to mention that in scenarios the people live in the local area]

Scenario A – Emergency

Mrs C has a phone call from her brother to say that their mother in Ireland is very ill.

She wants to go to Ireland straight away to see her mother but does not have enough money for the fare.

- What should she do?
  - Why?
  - Chances of success?
- Best and worst things she could do?

PROBE FOR EACH TYPE:

- What if she was turned down for that type of credit?
- What if she already had a loan from that source?

Scenario B – Planned events

Mr D wants to give his daughter some money to pay for her wedding but doesn't have any savings

- What should he do?
  - Why?
  - Chances of success?
- Best and worst things he could do?

PROBE FOR EACH TYPE:

- What if he was turned down for that type of credit?
- What if he already had a loan from that source?

Scenario C – Discretionary spending

Mr and Mrs E want to take their children on holiday to Butlins. They have paid the deposit and most of the payments, but the last payment is due and they do not have enough money to pay for it.

- What should they do?
  - Why?
  - Chances of success?
- Best and worst things they could do?
- What about spending money?

PROBE FOR EACH TYPE:

- What if they were turned down for that type of credit?
- What if they already had a loan from that source?

Scenario D – Essential goods

Ms A needs a new washing machine but hasn't got the money to buy one

- What should she do?
  - Why?
  - Chances of success?
- Best and worst things she could do?

PROBE FOR EACH TYPE:

- What if she was turned down for that type of credit?
- What if she already had a loan from that source?

[If enough time ask same of beds and bedding]

Regardless of what you needed the money for, where would you go if you needed

- £50
- £250
- over £1,000?
- always the same, or different in different circumstances? (clarify but do not explore)

Decision-making

What sorts of things do you take into account when you are deciding where to borrow money from or get something like a washing machine?

PROBE IF NOT MENTIONED:

Access

- how quickly you can get it
- how easy it is to get
- convenience
- amount you are able to borrow
- chances of getting the money

Cost

- total cost
- interest charges

Repayment

- amount
- frequency
- method, e.g. deducted from benefit, collected from home
- how long before repaid
- penalties, e.g. if missed a repayment

Which of these things would be most / least important?

- Why?
- Different for different circumstances?
- Different for different amounts of money?

Can you get the things that you rated as important from anywhere now?

If not, which types of credit are closest and furthest away from what you want?

If you could get what you wanted from all places (e.g. social fund, mail order, Provident etc.), which would you choose?

- Why?

Would it make a difference if you were a bit better off?

- Why?

Savings (ask of all three groups)

- Check if anyone currently saving and in what ways
- If saving:
  - What are you saving for?
  - Frequency
  - Amounts
- If not saving:
  - Why?
  - Would you like to be able to save?
  - Why / why not?
- Advantages and disadvantages of saving

Credit union members

- Currently saving into credit union?
- Why / why not?
- Saving in any other ways?
- Change if different circumstances?
- Advantages and disadvantages of saving with the credit union

Non- credit union members

- Check for knowledge and experience of credit unions
- Introduce idea of credit union if not familiar:
- open to everyone
- borrow once you have built up small amount of savings
- local and run by local people
- low cost loans
- Views of credit union as a way of saving / borrowing
- Would you / have you ever considered joining?
- why / why not?

All groups

- Introduce idea of saving through the benefit system (preamble about lot of people liking direct deductions from benefit to pay off loans etc.)
- What about idea of being able to borrow against those savings?
- Advantages and disadvantages of this type of scheme
- If this type of savings and loans scheme was available through the benefit system, would they prefer to use credit union or benefit system?