Pay day loans in Britain increase by 400 percent

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A report by the Consumer Focus watchdog group states that the number of people using costly "pay day loans" has quadrupled in the last four years in Britain. These short-term loans, which are supposedly intended to last until the next pay cheque, often "roll over" to the following months and accumulate enormous charges.

With interest often charged at £16 for each £100 borrowed, over longer periods this can sometimes amount to the equivalent to an annual percentage rate (APR) of 1,000 percent, with some companies charging over 2,000 percent by the time they are done.

The BBC highlighted the case of a recently graduated woman who took out a £400 pay day loan after falling behind on her bills and rent. After failing to quickly repay the loan, she soon had to pay back over £800.

Of the 1.2 million people taking out these loans each year, the average borrower takes out 3.5 loans a year, for a typical sum of £294. A total of £1.2 billion is borrowed in this way annually.

Two years after the £1 trillion bank bailouts, large numbers of people are turning to high interest lenders as high street banks cut lines of credit. The figures point to a crisis facing millions of low-paid workers, who are forced to rely on loans when faced with an unexpected expense or shortfall in wages.

The report highlights an increase in pay day loans since the beginning of the recession. Workers have seen their conditions deteriorate as prices rise and Value Added Tax is hiked. Recent announcements of a fall in unemployment obscure a large increase in those working part-time at 27 percent of the workforce, the highest since records began in 1992.

Another reason for the rise in pay day loans is the lack of job security. John Lamidy from the Consumer Finance Association noted the "reluctance among many consumers to take on long term loans from traditional lenders, because they feel their financial situation could change."

The pay day loan industry also encompasses pawnbroking and rent-to-buy services. It saw a growth of 40 percent in 2009 and is currently a £7.5 billion market. Prices are kept high due to a limited level of competition, as financial pressure on borrowers means they are rarely able to carefully research their choice of lender. The report points out that 61 percent of people using high interest credit services find financial products "complex and confusing".

Already a widespread phenomenon in the United States, American companies have rapidly expanded into the UK market, with TV adverts for instant loans becoming more common.

The watchdog warns that a further 45 percent increase in the short-term credit market is likely in the coming period. This is because an estimated 600,000 public sector job losses are expected due to cuts announced by the Conservative-Liberal Democrat government, as well as attacks on the welfare benefit system that will force more people into temporary or part-time positions with no secure income.

The increasing resort to pay day loans is part of a huge rise in personal indebtedness in the UK. According to statistics from the Bank of England, personal debt has grown to £1.46 trillion, having increased by £500 billion since 2004. This debt just exceeds national GDP and is mostly made up of mortgages.

The number of personal insolvencies has risen solidly since 2007, and hit a record high of 35,682 in the first quarter of this year. A 3 percent drop in insolvencies for the past quarter is being trumpeted in the corporate media as a sign of economic recovery. However, the number of bankruptcies is continuing the upward trend of recent decades. Insolvencies alone grew 458 percent in the decade from 2000 to 2010.

Debt advice services like the Consumer Credit Counselling Service have seen a 51 percent rise in the number of customers in the past three years. Their 221,000 customers typically owe £25,000 to various creditors.

The Consumer Focus report calls for increased regulation, such as forcing banks to extend credit to workers who cannot make it to the end of the month. But it admits that the deep-seated social crisis underpinning the rise in short-term credit is far beyond its remit.

While the capitalist press bemoans a “live now, pay later” culture, as borrowing to income ratios have tripled since the 1980s, the growth in personal debt is a global phenomenon—the outcome of the driving down of wages and working conditions over decades. Its increase is inexorably bound up with the efforts of the ruling elite internationally to offload the crisis of the profit system onto the backs of the working class, by destroying jobs and further attacks on living standards.