UK: Struggling families face astronomical interest on loans

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The queues forming outside credit unions to arrange loans show the extra stress that Christmas is bringing to already hard-pressed workers and their families in the UK.

Credit unions are co-operatives controlled by their members and have to have a "common bond". These used to be for workers from one factory, business or social club, but that remit has now widened. They have seen their customer base increase by over 20 percent in the last year. Members do not get a loan straight away but have to save for a period with the union and then, if agreed, they can have a loan at a low interest rate.

The sole benefit of using the co-operative credit unions for many is that they will not face the astronomical interest repayments that some loan firms charge. "Pay Day" loans are the most notorious with interest rates of 5,000 percent if the whole amount is not repaid in one month. The firms involved excuse their rates by claiming that they represent a penalty because the loan was only meant to be short-term, hence its name.

However, when faced with repayment difficulties many borrowers are offered "rollovers", to extend their loan for months at a time, incurring huge costs. One £80 loan escalated into £600 over a couple of months. Research by Consumer Focus last year showed the number of payday loan users rose from 300,000 in 2006 to 1.2 million in 2009. That figure has now doubled to 4 million, according to some recent estimates, as the Conservative-Liberal Democrat government's austerity measures bite, with rising unemployment, inflation and pay cuts and freezes.

Any search engine throws up dozens of different payday companies offering decisions in 15 minutes. People are assured that the money will appear in their bank accounts straight away, and that no credit checks will be made.

The companies go under the salubrious names of QuickQuid, Check'n Go, Wonga, etc. The Consumer's Associationestimates that the payday loan industry is worth £1.5 billion. Lenders advertise the ease of repayments that will be deducted from customers' bank accounts on payment day, potentially leaving them unable to meet other, more important, costs such as their mortgage. Over 18,000 homes were repossessed in the first six months of the year, while the number of mortgages in arrears stands at 78,000—all potential repossessions that could surface next year.

Radio 4's Money Box programme has revealed that the major high street banks are also charging huge costs for unauthorised overdrafts for customers who go over their limit. A customer going into an overdraft of £100 for 28 days without the consent of Santander would repay £200, for example. That is the equivalent annualised percentage rate, or APR, of 819,100 percent.

A representative of the British Banking Association said that using APRs to calculate the cost of unauthorised borrowing was a "mathematical manipulation" because the fees are representative of borrowing on an overdraft facility, not for borrowing the specific amount of money from the bank. Mike Dailly, from the Govan Law Centre, said the government must review unauthorised overdraft charges. "What we've got here is banks with equivalent APRs of nearly one million percent", he said. "It really is eye-watering".

Other loan companies try to distance their businesses from the payday companies, but on close examination their interest repayments can be as much as 2,500 percent for late payers. Their web sites encourage the use of the loans for nonessentials such as new cars and house renovations to finance a lifestyle out of their

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grasp.

Most loan companies require a bank account and pay cheque, so the only route left for the unemployed is the door-to-door money lenders of many years standing. They used to offer “cheques” for use in school wear shops or for specific clothes retailers, but now it is mostly cash loans. Catering for the unemployed and those with a bad credit history, they make arrangements to call personally to collect the money when the benefit has been paid.

The Citizens Advice Service is usually the first port of call for people seeking help when they get into arrears. Those using the service in Dumfries and Galloway, Scotland, for example, have recorded levels of debt far in excess of previous years. Its annual report has revealed that in the last 12 months the organisation helped nearly 1,300 clients who collectively owed almost £28 million. This has led to the largest debt recovery firm in Scotland, Mackenzie Hall, doubling its workforce at the Kilmarnock call centre to cope with the surge in bad debts.

Another phenomenon bred by the recession is the logbook loan for those who own—or almost own—a car outright that is worth more than £200 and is less than 10 years old. A person places the logbook with the company, signs a bill of sale—which is claimed will only be used as a last resort—and receives a loan.

In some instances people can expect a repayment of £2,000 on an £800 loan.

The concept of logbook loans stems from legislation dating back to Victorian times—the Bills of Sale Act in 1878 and its amendment in 1882. It states that the item on which the loan is secured can be seized and sold if the borrower defaults, and the borrower can still be pursued if there is any shortfall when the item is sold.

The companies involved frequently repossess vehicles on the first late payment and are less than scrupulous in their bookkeeping. They also charge for every reminder issued, at the rate of £12 a phone call or letter. These charges are aggressively pursued and expected to be paid in full at the end of the agreement, and some borrowers find themselves facing bills of £800 purely for administration charges. The firms take the borrower to court for these amounts, putting further pressure and in some cases risking their homes, as more loans are secured on their property when court fees are added.

Almost 40,000 loans of this type were made in the year of March 2009 for sums amounting to £30 million. Because of the tactics of these companies, the Department for Business Innovation and Skills (BIS) is carrying out a 12-week consultation on what it calls the “archaic” and expensive method of borrowing, after which the practice is expected to be banned.

Banning these parasitic firms alone, however, is not the answer to the financial situation in which workers and their families find themselves. The government is stripping away the safety nets associated with the welfare state, aggressively attacking unemployment and working families’ benefits, forcing more and more people to turn to loans to supplement their resources.

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