Wonga payday loans collapse shows extent of UK poverty

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The announcement that Britain's biggest payday loan company, Wonga, has gone into administration will not be mourned by the thousands of people whose lives have been made a misery by its nefarious practises.

Payday loans are a short-term loan, developed by firms such as Wonga as a way of being able to access money quickly, with a short-term repayment period. They are aimed at the vast numbers of people in low paid work who run out of money before the end of a month, leaving them struggling to pay for essential items. The loans come with extortionate rates of interest.

In a form of "legal loan sharking", Wonga at one stage was able to charge interest at up to 5,853 percent before rates were capped by legislation in 2015. The new limit was set at a still massive 1,500 percent.

Last week, Wonga stopped taking new loan applications, with the company's loan book believed to be valued at £400 million owed by more than 220,000 borrowers.

One of the main reasons for Wonga's crisis was the large increase in the number of compensation claims against it for mis-selling its product. Many people were granted loans by Wonga and other payday firms who were in no financial position to ever pay it back. Under Financial Conduct Authority (FCA) regulations, they are now able to make compensation claims on the basis that payday lenders failed in their duty of care to check that borrowers could afford the repayments.

The UK payday loan industry grew rapidly from 2008-2012, coinciding with the global financial crash and the pauperisation of millions of people in the UK. The numbers of loans issued in this period were 10.2 million per year, with a value of £2.8 billion.

In 2014, after growing public anger at Wonga's operations, the FCA found its debt collection practices unfair and ordered the company to pay 45,000 customers a total of £2.6 million in compensation. It ruled that fees and interest could in future never exceed the original loan amount.

As a result, the payday loan market retracted by 27 percent between January and September 2014, with four out of the eleven major payday lenders stopping offering loans.

The market has not recovered since the introduction of Price Cap Regulation in January 2015, with more payday lenders going out of business. Wonga's posted pre-tax profit losses in 2016 of nearly £65 million, after recording huge profits just a few years before.

In its 2014 review of the payday loans industry, the FCA found that the average income of a payday lender customer was £16,500 a year, far below the UK's median wage of £26,500 at that time.

In 2017, the Competition Market Authority (CMA) carried out an investigation into payday lending revealing that the average borrower takes out as many as six loans every year. The numbers of borrowers who are able to repay their loans in full has decreased over time.

The CMA found most recipients (52 percent) of payday loans have experienced financial problems in the recent past, with 38 percent of all customers having a bad core/credit rating and 10 percent of customers having had a bailiff or debt collector visit to their home. Over half (53 percent) use payday loans to pay for living expenses, food, utility bills—with 7 percent having to use these loans to pay for general shopping such as clothes and household items.

Most payday loans are taken out on a Friday, at the beginning or end of the month, with borrowers experiencing financial pressure and having no access to other credit alternatives.

Many of those taking out loans take them out with multiple companies because of problems not being able to meet previous repayments on loans or making late repayments.

These loans were often advertised to the public as a way of dealing with an emergency expense that has arisen, such as a boiler breaking down, or an unforeseen car repair. The reality, as the CMA investigation found, is that only 52 percent of customers used the loans to pay for an emergency related expense.

The Jubilee Debt Campaign reported that three million households in the UK are now stuck in a debt trap, paying more than a quarter of their income on debt repayments, with poorest families hit hardest.

There are countless stories of people being driven into a spiral of increasing debt.

The practices in the payday loans industry were graphically highlighted in the case of Kane Sparham-Price.

Sparham-Price, an 18-year-old from Ashton-under-Lyne, Greater Manchester committed suicide in February 2013. This took place hours after Wonga took payments for the debts he owed, leaving his bank account empty. He took out loans through Wonga's website, after turning 18 and leaving local authority care. Sparham-Price had a history of mental health problems.

At the inquest following Kane's death, it was not suggested that Wonga had acted unlawfully or was aware it had left Sparham-Price penniless. However, a coroner's report called for a change to payday loans rules to prevent similar deaths.

Austerity measures since 2008 have all but destroyed the social safety net. The roll out of £14 billion of welfare cuts has had a devastating impact on eight million low and middle-income households, and the introduction of Universal Credit will increase the debt crisis for many more of the poorest families.

Since 2008, workers in the UK have suffered the longest period of wage stagnation in two centuries, with one million people in part-time work who want a full-time job, and the number of people on zero hours contracts having increased by 400 percent.

Figures published by the Office for National Statistics showed that British households spent an estimated £900 more on average than they received in income during 2017.

Under conditions of deeper austerity and growing financial insecurity, the collapse of Wonga will not spell the end of the payday lending crisis. Commenting after emergency talks with the firm, the FCA insisted, "Customers should continue to make any outstanding payments in the normal way. All existing agreements remain in place and will not be affected by the proposed administration."

It is expected that Wonga's loan book will be taken on by another firm with the *Financial Times* noting, "It is not unusual for consumer loans to be parcelled up and sold on to privately owned debt-buying companies, many of whom specialise in the subprime sector. They can buy bad debts for as little as 5 pence in the pound, meaning a £1,000 loan where the borrower has defaulted could be purchased for just £50. Then, the new owner of the debt can legally chase the borrower for repayment and may use more aggressive recovery tactics, such as sending in the bailiffs."

The collapse of Wonga and the larger payday loans firms will see many desperate people turning to local loan sharks, with these thugs routinely exposed for engaging in brutal, criminal practises.

According to estimates by debt charity StepChange, one in seven people borrowed money to meet a household need last year, with an estimated 1.4 million resorting to high cost credit. StepChange head of policy Peter Tutton said the market for payday loans was not "done and dusted" in the wake of Wonga's collapse. "There is a constant stream of people having to use high cost credit for essentials."