

## Research Summary: Making Ends Meet – Women’s Access to Lending

Increases in the cost of living, insecure employment and changes to social security benefits as a result of welfare reform are putting growing pressure on families and household budgets. This has meant that many people on low incomes are borrowing through necessity in order to make ends meet and to fund essential items such as white goods.



### Introduction

Borrowing is a fact of life for many people. Credit can be very useful in helping people to manage essential bills and to respond to short-term shocks.

When people are living on low-incomes and their finances are stretched they are more likely to have to use credit to make ends meet. With little savings, limited access to affordable credit and poor financial literacy ordinary life events such as a cooker breaking down can lead to serious financial difficulties and problem debt. In some cases this can become nearly impossible to escape setting a pattern for the rest of their lives.

Research shows that credit is increasingly being used to fund everyday living costs including necessities for those on low-incomes.

### High-Cost Credit

High-cost credit products (such as doorstep lending, credit/store cards, catalogue and payday lending) often provide convenient access to money to help people make purchases they cannot afford to pay upfront. In many

cases it may be one of the few options available to those on low-incomes to access credit.

Research has shown that low-income households are increasingly using expensive consumer credit to make ends meet. Having to repay loans with high interest rates and charges severely constrains already tight household budgets and increases the risk of these households falling into problem debt.

### Impact of Welfare Reform

Welfare reform changes have significantly cut the value and availability of social security benefits and research shows that welfare reform changes have disproportionately impacted on women.

Problems with Universal Credit, the government's flagship welfare reform policy, have been well documented. Previous Women's Regional Consortium research showed the initial 5-week wait for the benefit causes women great hardship including getting into debt and rent arrears.

Statistics show rises in the usage of foodbanks with many people on benefits

and in low-income work not being able to afford essentials including food.

Since the Social Fund has been replaced by Discretionary Support there has been a weakening of this safety net for the most vulnerable borrowers meaning that it no longer provides the support that it once did. This has the potential to push more people into the path of expensive lenders.

The evidence suggests that the support people rely on through the benefits system is not effective enough at keeping them out of financial difficulty.

### **Impact of being in debt**

There is growing evidence that unmanageable debt can have wider negative effects on people's lives. It can affect their ability to access credit, prevent other financial decisions being taken and impact on their health and wellbeing.

Debt puts a huge strain on families including children. It can limit children's opportunities, damage relationships, and has serious negative impacts on mental health. Tragically in some cases it can even drive borrowers to end their life.

### **Women and debt**

Borrowing and debt are far from gender neutral. It makes sense that those with the most money coming in each month are better equipped to overcome short-term financial problems or income shocks.

However, women are more likely than men to claim social security benefits and are more likely to be in low-paid, part-time and insecure work keeping their incomes lower.

Traditional gender roles do little to protect women from low incomes and debt with pressures of caring responsibilities and childcare costs limiting their ability to increase their income.

Debt charities also report that lone parents are over represented in their debt clients compared to the general population. Lone parents are more likely to be in low-paid and part-time work as well as disproportionately impacted by welfare reform and increases in the cost of living. Most lone parents are women.

Low wages, unemployment, economic inactivity and childcare issues mean tighter budgets for women with less income to fall back on when unexpected costs arise. This makes women more likely to rely on borrowing to make ends meet.

Women who are struggling financially on benefits and in low-income work may be forced to use expensive forms of lending and in some cases this can lead to a never-ending spiral of debt.

## Findings

The research found that the majority of the women were unable to make ends meet on the income they received from benefits or in low-paid work and had needed to borrow money. Much of their borrowing had been simply to make ends meet and for essential items. A significant proportion of this borrowing had been through high-cost lenders with doorstep lending featuring heavily.

## Key Points

- ♀ 87% of women reported that they had needed to borrow money in the last three years.
- ♀ Most of the women reported borrowing to make ends meet or for essential items such as white goods, furniture, the costs of Christmas, etc.
- ♀ The use of high-cost credit was widespread particularly through doorstep lending and credit/store cards.
- ♀ Many women reported being unable to access cheaper forms of lending due to poor credit ratings, low income or having other debts.
- ♀ For most of the women the choice of lender was based on knowing they would be able to secure the money, convenience and affordability of repayments not on the total cost of credit.
- ♀ Some women did not understand financial terms, the amount of interest they were paying on their debt or how much they would have to repay in total.
- ♀ Many women reported difficulty meeting their debt repayments and/or had missed repayments.
- ♀ Women felt the impact of welfare reform with many struggling to make ends meet. The initial 5-week wait for Universal Credit caused severe financial hardship.
- ♀ The women felt it was harder to access short-term financial help through Discretionary Support.
- ♀ Most of the women had no/very little savings as income from benefits/low-paid work did not allow them to save.
- ♀ Women reported “feeling like a failure” for not being able to provide for their children due to a low income.
- ♀ The negative impact of debt was evident with women reporting impacts on their mental health, relationships and general wellbeing.

### What women said:

*“Unexpected things crop up once I’ve paid the bills like needing a new washing machine, then I need to borrow money.”*

*“This time of the year [Christmas] if I’m offered loans I’d take them. It’s so tempting when you are sitting with no money.”*

*“I paid the doorstep lender off in January last year and they are still messaging me asking if I want another loan. It is really hard when you are struggling and you think I could really do with this money.”*

*“I’m with Morses Club for every £100 I pay £65. I use this for Christmas and everything else.”*

*“I’ve been to a loan shark – it’s not good. The interest they put on. If you miss a payment they are at your door – you don’t miss those payments.”*

*“I did Christmas through a catalogue. I got £700 but I missed payments so it is now £1,500. I’m just paying the minimum payments so the interest is just adding on and it’s always getting bigger.”*

## Recommendations

- ♀ Government should work with others to introduce or underwrite the development of schemes to provide low/no interest loans to help those on the lowest incomes access affordable credit especially for essential items.
- ♀ Government should relax the laws for Credit Unions to allow them to offer a wider range of products and services to help higher risk customers avoid high-cost credit.
- ♀ Government should strengthen existing welfare mitigations to include new challenges such as Universal Credit.
- ♀ The budget for Discretionary Support should be increased and the eligibility criteria should be less restrictive, in particular the income ceiling should be removed.
- ♀ The FCA should extend the rules that cover payday loans to the doorstep lending market by extending its definition of high-cost short-term credit to include doorstep loans.
- ♀ Government should consider what further help could be provided to lone parents who are unable to get help from their former partner through child maintenance.
- ♀ More needs to be done to educate children on financial literacy and capability in schools to help with money management and in making informed financial choices.
- ♀ There is a need for an effective Financial Capability Strategy reflecting the different circumstances that exist in NI.
- ♀ Sufficient funding should be made available to enable debt advice agencies to continue with and expand their free debt advice services to cope with demand.
- ♀ Government should acknowledge and support the role of community-based women-only provision in addressing women's poverty and financial vulnerability in disadvantaged and rural areas.

### What women said:

*"You can hardly get Discretionary Support now. They wouldn't give me anything."*

*"I have a poor credit rating so I take any loan that is offered."*

*"Changes to the benefits system have made things worse."*

*"I feel like a bad mum because I can't get the kids the things they want."*

*"It's hard when you're a single parent. I get nothing from my kid's dad."*

*"I'm not getting enough money to be able to save, I just can't."*

*"You're always worrying about your debts, it's scary."*

*"All you see is what you're getting not how much you have to pay back."*

The full report "**Making Ends Meet: Women's Perspectives on Access to Lending**" produced by the Women's Regional Consortium is available from the Women's Regional Consortium website at <http://bit.ly/2T17xl7>

February 2020



**Women's Regional Consortium**