

Overview and Scrutiny Committee

Report of

“Loan Sharks within the Borough”

**Select Committee 3
Cllr W. Rotherham
(Chair)**

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PREFACE

Some People

Some people know what it's like,

...

to be short for the rent

to be short for the light

to be short for the school books

to wait in the Community Welfare waiting-rooms full of smoke

to wait for two years to have a tooth looked at

to wait another two years to have a tooth out (the same tooth)

to be half strangled by your varicose veins, but you're

198th on the list

to talk into a banana on a jobsearch scheme

to talk into a banana in a jobsearch dream

to be out of work

to be out of money

to be out of fashion

to be out of friends

to be in for the Vincent de Paul man

to be in space for the milkman

(sorry, mammy isn't in today she's gone to Mars for the weekend)

to be in Puerto Rico this week for the blanket man

to be in Puerto Rico next week for the blanket man

to be dead for the coal man

(sorry, mammy passed away in her sleep, overdose of coal

in the teapot)

to be in hospital unconscious for the rent man

(St. Jude's ward 4th floor)

to be second-hand

to be second-class

to be no class

to be looked down on

to be walked on

....

and other people don't.

Source: Rita Ann Higgins, Sunny side plucked, Bloodaxe Books, 1996.

1. INTRODUCTION:

- 1.1** As part of Wigan Council's Overview and Scrutiny process a Select Committee was established to look at the impact of loan sharks within the Borough.
- 1.2** The issue was raised by one of the Council Members who was concerned about the levels of debt in a particular ward. As a result it was agreed by Council to undertake a review of "Loan Sharks" on Council estates. However, it was felt that the review should take into consideration the entire Borough and not to exclude residents who do not live on Council estates.
- 1.3** The Select Committee comprises of five Elected Members and two Council Officers, who have been working together from February to June 2002, to gather evidence in order to understand the issues of debt and to make recommendations.
- 1.4** There is no doubt that the impact of loan sharks within the Borough has a detrimental effect upon the lives of members of the community. Within the Borough there are a large number of vulnerable people who are experiencing financial problems. It is not uncommon for people in all walks of life to obtain credit, as it has become part of everyone's day to day living. However whilst for some credit is available on reasonable terms from established institutions eg; banks and building societies, many other people are unable to gain credit from these institutions.
- 1.5** Whilst undertaking the research for this report we found that many people are forced to borrow from lenders, both legal and illegal, who charge extortionate rates. We hope that the findings of this review will prompt action to bring improvements in the circumstances of members of the public who are exploited in this fast growing market as they are forced to find credit from loan sharks and the sub prime market.
- 1.6** Definition of Loan Sharks – Unlicensed lenders who operate illegally and lend money when no one else will. They operate in the following ways:
- Interest will be very high and so people find it difficult to keep up repayments
 - Clients may be forced to get a second loan to pay off the first and so on, until debts are out of control
 - They may turn very nasty if clients fall behind with payments

2. EXECUTIVE SUMMARY:

- 2.1** Wigan Council is one of ten Metropolitan Councils in the county of Greater Manchester. The Council's population is 307,061 covering 73 square miles bounded by other metropolitan councils in Greater Manchester and Merseyside, Salford, Bolton and St Helens.
- 2.2** There is currently no overall policy to support and advise people who have found themselves in difficulties with their finances and repayments of loans; often the Council will be unaware of this.
- 2.3** Difficulties were experienced in obtaining information about "loan sharks" in the traditional sense. Against this background it was found that members of the public are reluctant to come forward for fear of any repercussions from loan sharks. However, there is anecdotal evidence that these types of lenders are having a detrimental impact in Wigan.
- 2.4** Although there is no specific legislation in relation to loan sharks there are key areas of legislation relating to finance and credit. Further details on existing and proposed legislation are contained within Part 6 of the report.
- 2.5** The following different kinds of borrowing were identified: catalogues/mail order, charge account, credit cards, credit card budget account, higher purchase, loan sharks, mortgage, pawnbrokers, personal loan account, store cards and unsecured loans.
- 2.6** The Office of Fair Trading estimates that around 8 million people are excluded from traditional sources of lending. The "sub-prime" market is estimated to be worth £16billion a year to non-standard lenders.
- 2.7** Nationally, there is growing demand for debt advice as financial problems are increasing at an estimated rate of £10m year on year. Various organisations, including other local authorities, are responding to this in a variety of ways. Some work has begun within Wigan and this review has set out a number of recommendations to provide further support, advice and access to affordable credit.

3. OBJECTIVES AND RESEARCH METHODOLOGY

3.1 This section outlines the research undertaken in order to collate data appropriate to the aims and objectives identified in paragraph 3.3. Qualitative and quantitative approaches were adopted using statistical data produced by a variety of sources including information provided by Wigan and Leigh Citizen’s Advice Bureau and other Local Authorities.

3.2 The review established its primary aim:

“To ensure that members of the community have access to affordable credit and to provide advice to those who are vulnerable to extortionate lending”.

3.3 The objectives of this review have been:-

- ◆ To identify types of lenders (“Loan Sharks”) within the Borough
- ◆ To investigate issues relating to loan sharks
- ◆ To understand the implications of:-
 - Overall levels of debt
 - Types of credit arrangements
 - Eligibility for bank accounts
 - Limited access to credit union facilities
- ◆ To identify the levels of interest charged
- ◆ To identify some of the selling techniques
- ◆ To understand the issues members of the public face with overall indebtedness.
- ◆ To investigate the impact that debt management companies have on members of the community.
- ◆ To recommend response strategies

3.4 The review links into the Council's four political principles as shown below:-

<p>Place</p> <p>Make the Borough a more attractive place by:</p> <ul style="list-style-type: none"> • Providing a safer environment for people to live in 	<p>People</p> <p>Provide opportunities for all citizens to obtain:</p> <ul style="list-style-type: none"> • Access to affordable credit • Debt advice to those who are the most vulnerable
<p>Performance</p> <p>To continually improve performance in:</p> <ul style="list-style-type: none"> • Reducing levels of debt 	<p>Partnerships</p> <p>To act in the best interests of the whole community by:</p> <ul style="list-style-type: none"> • Working with voluntary organisations, Greater Manchester Police and other appropriate agencies • Networking with other local authorities

3.5 The Select Committee has met on a formal and informal basis as listed below:-

Formal Meetings

18th March 2002
2nd April 2002
8th April 2002
16th April 2002
30th April 2002
9th May 2002
20th May 2002
28th May 2002
12th June 2002
25th June 2002

Informal Meetings

25th February 2002
6th March 2002

4. RESEARCH FINDINGS

- 4.1 Housing Department - a meeting was held with an officer and representatives of FOTRA (Federation of Tenants and Residents Association) and the Housing Department to investigate issues that the Department may have identified and to share knowledge about loan sharks. As a result of the meeting an opportunity arose for the Select Committee to meet with representatives of a Housing Federation in Hindley. The meeting took place on 14th March 2002 at The Grange, Hindley.

The key issues identified from the meeting were:-

- Raise awareness of the pitfalls of borrowing money from loan sharks
- Provide debt advice/telephone helpline
- Promote and provide advice about Credit Unions
- Introduce Credit Unions for all within the Borough

- 4.2 Publicity - in order to find out about loan sharks operating within the Council and the difficulties members of the public face with levels of debt, the Select Committee agreed to provide a 24-hour telephone line. The purpose was to encourage people to come forward and provide adequate information. They may have use or know about loan sharks. To promote this facility advertisements were launched within local newspapers.
- 4.3 To date the effective response rate has been low with many callers declining to leave any information. A small number of people did leave messages and one in particular named a married couple who both allegedly operates as loan sharks within the north of the Borough.
- 4.4 In addition to the telephone line an anonymous letter was received by the Housing Department naming two people, together with their addresses, who allegedly operate as loan sharks and inflict threatening behaviour and violence if monies owed are not paid back on time. This information was forwarded to Greater Manchester Police. However, without hard evidence no further action can be taken.
- 4.5 It is no surprise that the response rate from members of the public has been low and it is perhaps understandable given the sensitive nature of this issue.

In addition to the advertisements, promotional leaflets were produced promoting the 24-hour telephone line. Leaflets were distributed through the following channels:

- Housing Department (who distributed them via their housing offices)
- Welfare Rights
- Citizen's Advice Bureau.

4.6 Semi-structured interviews:-

In order to obtain a holistic view of “Loan Sharks” certain key people were interviewed. Semi-structured interviews were conducted using questionnaires. The following officers/ people took part in the research:

- CAB - (two officers attended a Select Committee)
- Welfare Rights -
- Provident – a Provident collector
- Credit Union - Representative
- Greater Manchester Police
- Member of the public

4.7 Unstructured interviews took place with the following Departments/organisations to ask open questions with lateral scope to gather information:-

- Other Local Authorities
- Housing Department
- Voluntary Organisations
- Central Watch.

By using this approach Members of the Select Committee were able to obtain a view of the issues of debt from (in anthropological terms) the native's view.

4.8 Economic background - Wigan Council published its report on the Index of Multiple Deprivation. This report summarises the main issues facing the town at present. An abstract from Wigan Index Multiple Derepevation helps summarise the main issues evident within the report.

- Wigan has 12.5% of wards in the highest 10% in England in terms of income deprivation.
- In terms of employment deprivation, 30% of wards are in the highest 10% in England.
- One ward is among the top 5% most deprived wards in England.
- 14.1% of the Borough's population is now of pensionable age
- In 2001 percentage of school leavers in Wigan who achieved five GCSE passes at Grade A-C was 46.9. The national percentage is 47.2%
- 17.3% of young people of school age are eligible for free school meals
- 7.07% of people are claiming income support against 6.57% nationally
- There are 75,226 people who are classed as income deprived (experiencing income deprivation). Wigan is ranked 57 out of 354 districts on an income deprivation scale (National Statistics, 2000).

4.9 In Wigan, the Select Committee has encountered difficulties in trying to establish a clear picture of the overall levels of debt. The aim was to focus upon the types of debt people had, particularly looking at the amounts and the levels of interest that debt management companies charged. However, findings showed the levels of Council tax debt and rent arrears members of the public faced.

4.10 COUNCIL TAX AND RENT ARREARS:

The following table shows outstanding levels of **Council Tax** at the end of February 2002:-

Age of Debt	Amount Outstanding £
1993	92,500
1994	127,700
1995	208,900
1996	335,800
1997	475,300
1998	645,250
1999	973,950
2000	1,635,000
2001	3,619,000

The total Council Tax is approximately £99m per year. The Council currently has a 95.14% collection rate.

Source: Council Tax Section

4.11 A summary of Housing **Rent Arrears** (as at April 2002) is shown in the following table: -

Stage of Arrears Process	Arrears (£)	No of Cases	%
Prior to notice being served	987,431	5,647	21.7
Notice served, no court action started	605,909	2,067	7.9
Court action pending	421,678	748	2.9
Court order obtained	827,679	868	3.3
Eviction approved	137,803	122	0.5
TOTAL	2,980,500	9,452	36.3

Source: Wigan and Leigh Housing Ltd

The total value of the rent run for the Council is £25.4million. To date the arrears outstanding is £2.7million which equates to 89% collection rate.

In February 2002, 2,167 tenants paid their rent by direct debit. The total value of these payments was £286,065.

A further analysis of rent arrears by ward is mapped out against areas of deprivation to see if there is any correlation. It was found that people with debt problems were not exclusively to those who are on low incomes and live in deprived areas of the borough.

4.12 LEVELS OF DEBT HANDLED BY Wigan and Leigh CABx:

Wigan and Leigh CABs provide money advice throughout the borough together with a debt support line. The Council funds this service as part of a wider funding regime and both CABs receive an annual contribution of £33,334 each. The monies they receive are specifically for debt advice, however Wigan and Leigh CAB secure additional funding from other resources to support this function.

During 2001/02 Wigan and Leigh CABs have experienced an increase in the number of enquiries received about issues / problems relating to debt. The levels of known debt for Wigan and Leigh areas are £5,937,818. This revealed the types of debt as illustrated below:

- Consumer Credit Debt - £4,560,315
- Housing Debt - (Mortgage / Rent arrears) £1,106,504
- Other Debt - £270,999
- **Total - £5,937,818.**

To summarise local statistical data, debt effects: --

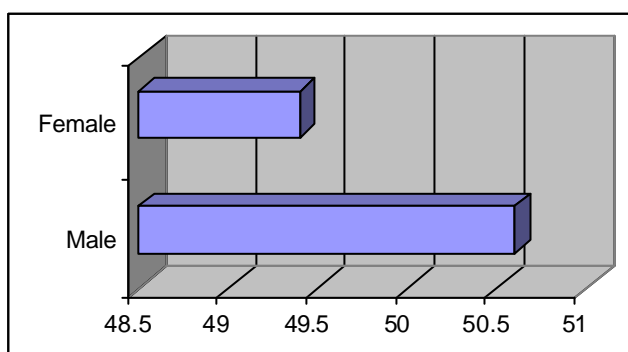
- Slightly more male than females have debt
- Almost two thirds of clients have no dependants
- Debt impacts on all age categories
- Debts relates overwhelmingly to consumer credit

The data is illustrated in figures 1 – 3 respectively below:

Figure 1

Gender

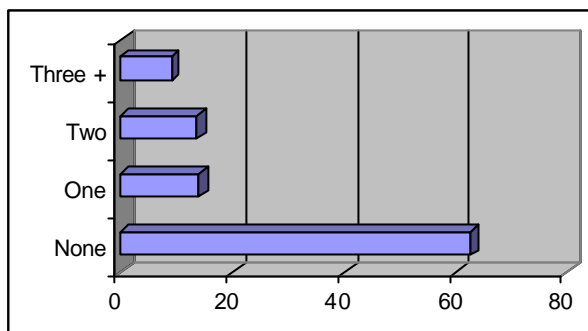
Male 50.6%
Female 49.4%



Number of dependants

Figure 2

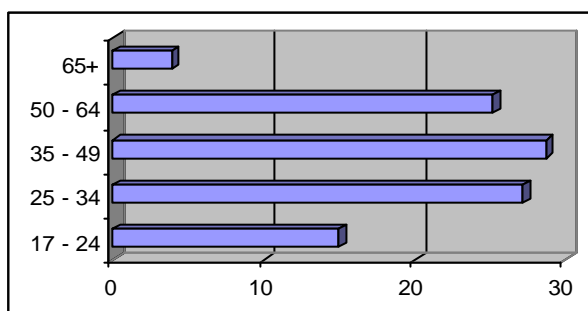
None 62.8%
One 14.2%
Two 13.9%
Three or more 9%



Age Group

Figure 3

17- 24 15%
25 –34 27.2%
35 – 49 28.7%
50 – 64 25.2%
65+ 3.9%



4.13 ISSUES RELATING TO DEBT PROBLEMS:

It is reasonable to say that the problematic issues arising from levels of debt are:-

- Unmanageable consumer credit
- Over commitment
- Health issues
- Mortgage debt / repossessions - 23,000 homes nationally in 2000
- Family breakdown

Financial difficulties can often lead to health problems and evidence gathered during the review has shown that a small number of people have committed suicide (but even one is one too many). The National Association of CABx reports that nearly 40% of people were unable to cope with their debts and a significant number were being treated by their GP for stress, anxiety and depression.

A survey carried out by Wigan and Leigh Health Authority found that overall 8.3% of people in the Borough said they had difficulty in managing financially.

- 4.14** The research was commissioned against a backdrop of growing concern about debt and the increasing pressure people found themselves under. This problem manifested itself in a variety of ways. The number of people identified as having debt problems (both locally and nationally) together with a tendency to overspend is on the increase.
- 4.15** As the above evidence shows people become depressed and are unable to face the future of life with debt. The following case study sadly provides evidence in support of this theory:-

Case Study

Joe is in his forties and has been recently divorced. He met a new partner and decided to take her on a holiday abroad to Spain. The relationship was blossoming and Joe decided to treat her to another luxury holiday. She was extremely impressed and thought he was wonderful. Little did she know that he was borrowing money to pay for these holidays and got himself more and more into debt. Joe was too frightened to tell his partner that really he couldn't afford these holidays. As time went by he became depressed about the levels of debt and sought advice from CAB. Joe begged for help to resolve his problems, and asked whether he should tell his partner the truth, as they were to be married soon. The debt advisor thought this would be the best thing to do. Sadly, Joe couldn't face his partner with the truth and unfortunately committed suicide that afternoon by hanging himself. It was later discovered that his partner would have helped him with the debt problems, and this would not have affected their relationship.

(Source: this is a real case from Wigan CAB)

- 4.16** These findings indicate that debt advice is required within the Borough. Evidence suggests that for people who are unfortunate and have difficulties with debt, life is becoming increasingly difficult and morale threatened.

An important point to be remembered is that some people clearly do not understand APR (Annual Percentage Rate) and are not eligible for bank accounts.

- 4.17** Debt management advice and consolidation loans:

There are several reputable organisations in the Borough that provide free debt management advice, e.g. Wigan and Leigh CAB, Wigan Independent Advice Centre, the council's Welfare Rights Section.

Work needs to be done to evaluate whether these are providing the same services/ is any one better than the other.

It needs to be noted however that apart from these free advice centres there are also commercial companies providing such advice - at a price. There is a booming

business in "consolidation loans". They offer one big loan to pay off smaller loans but some have very high interest rates - up to 365% APR.

A report by Citizens Advice Scotland identified the following problems with some companies:

- ◆ Interest not being frozen on re-arranged debt
- ◆ lack of regular statements
- ◆ failure to pay creditors
- ◆ repayment levels set too high
- ◆ lack of financial counselling
- ◆ failure to deal with all creditors

Debts continued to increase despite clients making the agreed repayments and they cite this example:

A South of Scotland CAB reports of a young man who was referred to a debt management company by his bank. He pays the company £210 per month, but it would seem they have not paid his creditors. He has paid over £1,000 to this company.

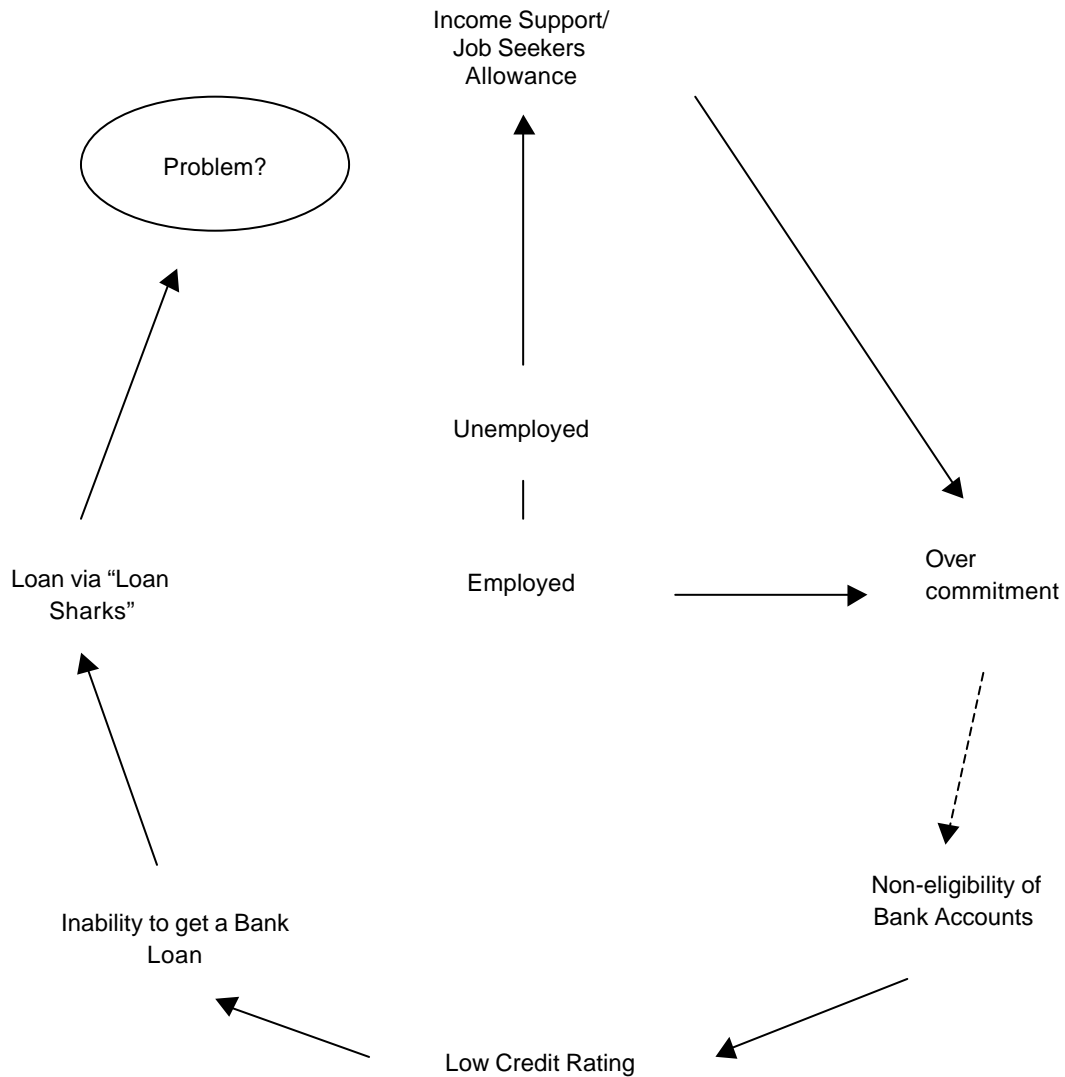
Another example is given of a company charging £5,000 for its services and the client may still be blacklisted. Yet another example is that of a company taking 37% of a clients income but keeping 21% of that as a fee.

Source: www.cas.org.uk/Change/CAS

4.18 The exact levels of debt in Wigan are not clear. However, there are a considerable number of people who is caught up in the vicious circle of debt. This process is illustrated in Figure 4.

Figure 4

THE "VICIOUS CIRCLE" OF DEBT PROBLEMS



The key drivers for change are:-

- Access to information about credit agreements
- Guidance notes/leaflets or other publications about debt advice
- Awareness of problems relating to debt

5. EVALUATION:

5.1 Nationally, the issue of debt, and especially loan sharks who prey on the vulnerable is recognised as problematic.

5.2 Evidence shows that credit is easily available for most and the main issues of debt relate to consumer credit debt.

5.3 Loan Sharks who make a Killing

Throughout the review, four distinct groups of lenders have been identified. The first group is the traditional loan sharks who charge extortionate interest rates and may allegedly resort to threats and to actual violence. Very few people came forward about these types of lenders, although there is anecdotal evidence.

The second category is that of legal lenders who charge extortionate rates.

Thirdly, debt management companies may also charge exorbitant rates and badly handle cases.

Fourth is allegedly the off-licence that loans either money or goods and then determine the amount of interest levied. For example £140 will equate to 200% APR.

The following case studies were identified as a result of people who were unfortunate to have an acquaintance with the more unscrupulous illegal loan shark.

5.4 "The Drug Dealer"

A man who operates as a loan shark within the Wigan Borough is well known as a drug dealer. In order to obtain monies owed, he inflicts physical violence by slashing people's faces with a craft knife. Members of the public are reluctant to report this person, therefore, no legal action has been taken.

5.5 "Collection Methods"

A number of people have said that a loan shark confiscates pension/allowance books as a guarantee to ensure payments are received. This has been done by meeting people at their local post offices. There are accounts of an ice-cream van collecting and returning books on a regular basis.

Also, loan sharks hire a third party to collect their monies, who in turn take 40% of money collected and are not averse to using violence.

The latest report that has been received is of a married couple who lives in the north of the Borough who both operates as loan sharks and use threatening and violent behaviour.

5.6 Who are the Victims of Loans Sharks?

Evidence gathered from witnesses allegedly stated that the victims of loan sharks are predominantly female, who are single parents with small children however, the statistical data indicates otherwise.

Case Study – A Wigan resident

Shirley lives in Wigan and receives income support. She struggles to make ends meet. She needed money to buy her young son a few small Christmas presents and was introduced by a friend to a local company. She took out a small loan of £100 payable over 54 weeks. Unaware to Shirley the APR was 187.2% (she didn't understand what APR was). Just before she was due to settle her loan the company wrote to her offering an increase of her loan and she could extend the repayment period. The collector sent her a catalogue selling toys and electrical goods (very tempting). However, later that year just before her child was due back to school after the summer holiday period the company wrote to her again, this time offering her a loan by the means of high street shopping vouchers and again adding this to her existing loan. At that time Shirley's young child needed a new school uniform and decide to increase her loan. She now owes a total amount of £900 (£600 loan and £372 interest which equates to a weekly payment of £18 over a 54 week period)

5.7 The legal "loan sharks" - this is the second category identified by the Select Committee - Other High Interest Lenders in Wigan:

There are a number of loan companies who operate within Wigan Borough. These are not classified as typical loan sharks but whilst they operate legitimately they charge high rates of interest and in some cases higher prices for the goods that they sell. As we found there is no limit in this country on the amount of interest that can be legally charged. However many members of the public have no means of obtaining credit other than from these sub-prime lenders.

There are a number of companies operating in Wigan.

Whilst some of these companies have an easy ride in this country in other countries life has been more difficult for them. Company A was driven out of France in 1996 as the result of a campaign led by Lionel Jospin. Its director in France noted that they had not had such trouble in Great Britain.

Example: Company B

- here they advertise flat interest rate of 29.9%
- goods charged at higher prices
- "optional interest cover" racks up the cost of credit

Example: Company C

- A £200 loan will be repaid at £12.80 per week for 23 weeks (total cost £294) (APR = 497.4%).
- A £100 loan repaid over 54 weeks would have a total cost of £164 (APR = 178.3 %).
- The total repayment value is fixed at the start of the loan, regardless of the repayment period. This was confirmed by CAB.
- Many people who borrow from Company C are more interested in the level of weekly repayments than in the total cost of the loan.
- An agent from Company C, who covers two estates within the Borough, said she had 184 customers, owing a total of £1,700 per week. The average loan is approximately £200.

5.8 The following case study is a quote directly from an article in the Guardian.

Mary, a lone mother living on a Council Estate in South London, struggled to make ends meet. Her weekly income from child benefit and income support was barely enough to keep a roof over her family's head. So when a neighbour proposed a £200 loan to help her pay off her bills and buy a new pair of shoes for her child, she jumped at the offer..

It all seemed simple. No credit checks would be carried out and the neighbour said he would come round to her house on the same day each week to collect an agreed amount of money until the debt was paid off.

However, Mary got into difficulties and the neighbour reassured her by offering another loan of £500 to cover the outstanding balance. Again, Mary struggled, this time she was offered a £1,000 loan to help. The loans she took out were charged at between 170% and 330% APR.

The lender was Provident Financial.

Source: The Guardian, 10th April 2002.

A follow-up letter to the Guardian gives the horrendous details of what happened next to Mary.

A year ago she borrowed "£200 from ... Provident Financial, plus £100 interest to be paid off over 30 weeks at £10 per week, or 330% APR, out of a benefit of £101.50 a week. She failed, so the company kindly lent her a further £5000, plus £310 interest over 54 weeks, or 170% APR.

In November, there was till £535 left unpaid and they lent her another £1,000, plus £620 interest over 54 weeks, to pay that off.

She is now being harassed by debt collectors on behalf of two catalogue companies and another door-to-door lender. Her debt repayments amount to £64a week out of her £101.50 benefit. The Lambeth Council debt collector is chasing her for arrears of rent. Her total debts are £7,203.

Rev. Paul Nicholson, Chairman of Trustees, Zacchrues 2000 Trust.

The Provident, which since Victorian times has specialised in lending to those who cannot get credit from banks, now has 1.6 million clients and pre-tax profits of £169m. (Source: Guardian, 10 April 2002.)

5.9 THE NATIONAL PICTURE OF DEBT:

According to national data collated as part of the review, the problem of consumer debt is escalating beyond reasonable levels. The National Association of Citizens Advice Bureaux says it is dealing with new cases of problem debt worth £1.2 billion each year and that consumer debt has soared 39% over the past four years. Most of those with debt problems are on less than the average national income. The renowned economist J.K. Galbraith noted the assumption that *"lower incomes will encourage the poor to work harder, while higher incomes will have the same effect on the rich"*. (Source: Red Pepper, March 2000.)

Deprivation studies conducted by the Child Poverty Action Group show that there are more than 3.5 million children living in poverty. Whilst the Labour Government has pledged to lift 1 million children out of poverty by 2004/2005 (at a cost of £5.5 billion) this will still leave 2.5 million children living in poverty. (Source: Guardian 3 April 2002.)

Government statistics show that 28% of households have no savings at all and 22% have less than £1,500. (Social Trends).

Unsecured personal debt, excluding mortgages, is now over £122 billion but a recent Office of Fair Trading survey suggests that the real figure (including all kinds of loans) is nearer to £160 billion. At the lower figure this equates to £3,425 of debt for every adult aged 18-65. However, as probably half have no debts at all, the real average is closer to £7,000.

Figures show that more people are borrowing at very high interest rates. To add to this problem, it is not a criminal offence to lend at extremely high levels of interest. Unlike many of our EU partners Britain has no ceiling on interest charged on credit. For good practice we need to look at Greece, Holland, France, Germany, Austria and Ireland and also the United States. An officer for Greater Manchester Police stated that unless hard evidence can be obtained on two separate occasions, then no action can be taken. However, if evidence is forthcoming legal action can be taken under the Protection from Harassment Act (1997) which can lead to up to five years in prison.

The following is a summary of the key points from the Citizen's Advice Bureau Report "Debt - A Growing Problem" (September 2001).

- **CABx** deals with about 1 million debt problems of all kinds in a year. Over 600,000 of these problems related to consumer credit debt.
- A national survey of **CABx** suggested the following:

Who seeks advice from CAB about debt problems?

- Over 50% of new debt clients were aged between 30 and 50
 - 25% were aged under 30
- Less than 10% were over 60
- Nearly 60% of debt clients was single, or no longer had a partner living with them
- Nearly 50% had children or other dependants living with them

- 11% had a disabled person living in the household (a greater proportion than in the population as a whole)
- There were roughly equal numbers of men and women
- Nearly 60% were renting their homes, and less than 33% were owner Occupiers (compared with 70% in the population as a whole)
- Most people were poorer than average for the general population

How much do they owe?

- The average debt was £10,700, ranging from £132 to £111,000.
 - 33% owed more than £10,000
- Over 30 different types of debt were recorded in the survey. Most were consumer credit debts, e.g. bank loans, credit and store cards, catalogue debts and HP.

Why were they in debt?

- The top 3 reasons were job loss, poverty and over-commitment
- Clients are more likely to be working in unskilled, low paid employment with little security
- People in debt often blame themselves for the scale of their debt problem

Research carried out by Paul Jones at John Moore University, shows that far from borrowing money to pay for luxury or non-essential goods, people on low incomes need credit just to get by. They know they are paying well over the odds for credit but have no choice but to pay the high prices charged.

To summarise the national data, the majority of clients were in the following category: -

- Aged between 30 – 50
- Single
- Renting their homes
- Average debt of 10.000
- Lost their job
- No other alternative but to borrow money

How were they coping?

- Nearly 40% said they were unable to cope
 - A significant proportion of people said they were receiving treatment from their GP for stress, anxiety or depression
 - Nearly 90% had been trying to cope with their debt problem before approaching the CAB
 - Over 60% were "robbing Peter to pay Paul" and cutting back on their Expenditure
 - Nearly 50% were using credit or taking on further borrowing
 - Many had been struggling for over a year before seeking CAB debt advice
-
- CAB statistics show there is a steady rise in demand for high quality, free, impartial and confidential money advice.

6. SUMMARY OF LEGISLATION TO REGULATE EXTORTIONATE CREDIT:

6.1 Existing legislation:

There is no legislation specific to loan sharks. The key areas of legislation relating to finance and credit arrangements are:-

- **Moneylenders Act 1927**
provided an interest rate ceiling of 48%
Most of this was repealed by the Consumer Credit Act 1974.
- **Consumer Credit Act 1974**

In summary, Section 138 of the Act says that credit is extortionate if it requires the debtor to make payments that are grossly exorbitant or otherwise grossly contravenes ordinary principles of fair dealing. Regard should be given to:

- interest rates prevailing at the time
- the debtors age, experience, business capacity and state of health
- the degree and nature of financial pressure the debtor was under
- the degree of risk accepted by the creditor, his relationship to the debtor
- whether or not a cash price was quoted for any goods or services included in the credit bargain

- The Office of Fair Trading in November 1990 and the DTI have reviewed the Consumer Credit Act over the last 10 years, in 1998. The conclusion reached was that the legislation is not working properly.
- The DTI is currently seeking views as part of a review of the Consumer Credit Act. This includes a commitment to tackle loan sharks

- **Administration of Justice Act 1970**

Section 40 of the Act states that it is an offence to harass someone for payment by frequency, manner or occasion of demands for payment, or by threat or publicity, subjecting the person or their family to alarm, distress or humiliation.

Sources:

"Daylight Robbery: The CAB case for effective regulation of extortionate credit" (Dec 2000)

"Admission of Justice Act 1970", Debt Help UK website (www.debthelpuk.co.uk)

- **Protection from Harassment Act 1997**

Sections 2(1) and (2) of the Protection from Harassment Act states that it is an offence to pursue a course of conduct which amounted to harassment and which he/she knew/ought to have known amounted to harassment.

6.2 Proposed legislation:

As noted above, on 26 July 2001, the Government announced an overhaul of credit laws including proposals to clamp down on loan sharks, to magnify the small print and to put a stop to irresponsible lending. (www.number10.gov.uk).

Anti-poverty campaigners exerted pressure on the Government to outlaw what they called "predatory" lending, as they believed that the 1974 Act proved useless in the courts. However, despite the ongoing review by the DTI and a 1999 recommendation from the Social Exclusion Unit little has been done so far to regulate the industry.

Indeed according to an article in the Guardian (April 10, 2002), the Consumer Credit Association, which represent lenders, says that a cap on interest rates is not on the DTI's list of priorities and that in any case it will not work. A DTI spokeswoman told the Guardian "We are concerned that some forms of lending will become uneconomical and lead lenders to withdraw from the market, leaving vulnerable customers with no other options apart from illegal loan sharks."

However, it is believed that a ceiling on interest rates could work if measures to widen access to affordable credit are introduced simultaneously.

7. COMPARATIVE DATA

7.1 What are other local authorities doing?

Advice services

Recognising the need for such services, a number of local authorities have been providing debt advice/helplines for a considerable time.

Discussions with 5 local authorities are summarised in Figure 5, which shows there: -

- opening hours
- number of employees
- management of the service
- funding sources
- number of years in operation

FIGURE 5

	<i>Stockport</i>	<i>Northampton</i>	<i>Sheffield</i>	<i>Manchester</i>	<i>Walsall</i>	<i>Wigan</i>
<i>Opening Hours</i>	<i>Tues-Thurs 1.30-4.30</i>	<i>am, Weds pm Phoneline: Tues, Fri (2 hours)</i>	<i>10-4 daily</i>	<i>Tues-Thurs 1.30-4</i>	<i>Mon, Tues, Thurs, Fri 9.30-12.30</i>	<i>Mon, Thurs 9.15-3 /4.00 Tues, Wed, Fri 9.15- 12.30 /4.00 Leigh / Wigan</i>
<i>No staff</i>	<i>1phoneline +info advice centres 2.5wte</i>	<i>2wte</i>	<i>2wte</i>	<i>4wte</i>	<i>1wte</i>	<i>2 wte</i>
<i>Management of the service</i>	<i>Stockport MBC</i>	<i>Housing Dept</i>	<i>CAB</i>	<i>Social Services Dept</i>	<i>Walsall Community Church</i>	<i>CAB</i>
<i>Funding sources</i>	<i>Revenue budget</i>	<i>Revenue budget + legal aid</i>	<i>Revenue budget + legal aid + lottery</i>	<i>Revenue budget</i>	<i>Community Fund (Lottery)</i>	<i>Council grant + Legal Services Commission</i>
<i>Total Value of funding</i>	<i>£72k</i>	<i>Unavailable</i>	<i>£65k</i>	<i>Unavailable</i>	<i>£61.725</i>	<i>£66.668</i>
<i>No. of years in operation</i>	<i>11</i>	<i>13</i>	<i>12</i>	<i>8</i>	<i>4</i>	<i>15 - 20 years (CAB)</i>

For further information leaflets/booklets (please see file of evidence).

7.5 Credit Unions

Credit Unions and other forms of community credit - Hilary Armstrong, then Minister for Local government and the Regions (1999) said, "as part of the agenda to tackle social exclusion the Government had given councils new powers to promote the well-being of their communities. This could mean ensuring that those families who are vulnerable to loan sharks have access to community credit unions.

7.6 Credit unions elsewhere

Additional information was obtained from St.Helens Council who tackled the issues of debt by firstly recruiting a consultant to undertake of a feasibility study (copy provided in file of evidence).

The study focussed upon credit unions and looked at ways to promote the use of Credit Unions throughout the Borough.

7.7 As a result of the study St. Helens Council has established a Steering Group that meets on a monthly basis. Group members are:-

- Council Officers
- Elected Member
- Members of the Public
- Representative from Chamber of Commerce
- Retail owners.

The Steering Group is actively promoting the use of Credit Unions within the Borough. They also have arrangements for members of a credit union to obtain discounts at various stores within St.Helens when they need to purchase second-hand goods i.e. furniture etc.

Detailed information about Credit Unions nationally and in the Northwest is provided in file evidence.

7.8 One of the largest Credit Unions is in Leeds. The employee based Credit Union has over £10M of assets, a central office and over 100 volunteers.

7.9 Credit Unions in Wigan

In Wigan, the Credit Union movement is restricted to the following areas however there are plans to provide a Credit Union Boroughwide: -

- Platt Bridge
- Pemberton
- Worsley Mesnes (north)
- North West Wigan
- Council Employees

There are 1,400 active members and approximately 3,000 inactive members. An age profile of members indicates that most people are aged over 50 and there are no students currently using credit union. Statistical data for Platt Bridge and Pemberton areas are illustrated in figures 6 & 7 below. No data is available for Worsley Mesnes / Northwest Wigan and Council Employees.

Figure 6

**Gender
Age Profile**

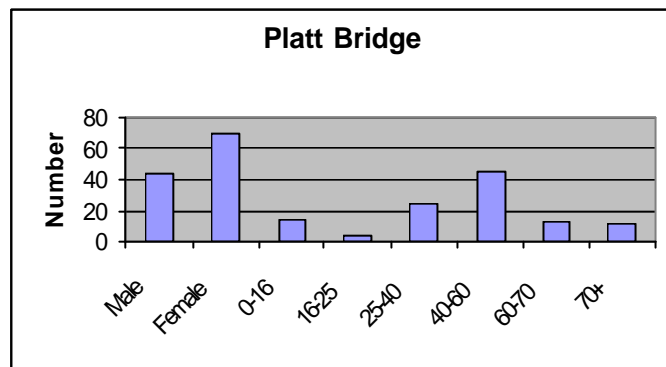
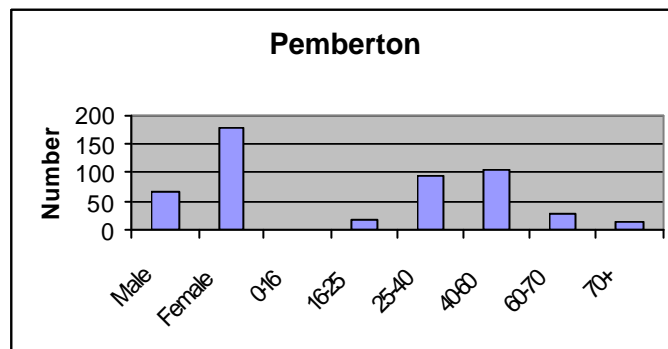


Figure 7

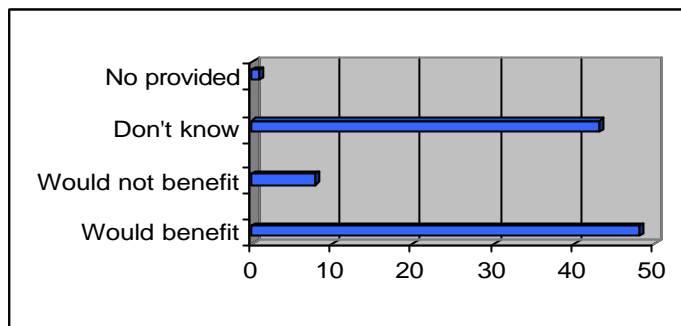
**Gender
Age Profile**



Statistical data indicates that there are more female members who are aged between 40 – 60 years of age. Within paragraph 7.5 of the report outlines the benefits of credit unions within the borough is part of the Government Agenda to tackle social exclusion. This has been identified within section 9 of the report i.e.: (R 13 /14)

Further information was obtained via a survey conducted in April 2002 with the citizen's panel about "Access to Health Services". One of the questions asked was "Do you think that a Credit Union would benefit people in their local area?" The results are shown in figure 8 below:

Figure 8



Although these figures indicate that a small proportion of people (8%) almost 50% felt that they would benefit for having a Credit Union within their local area. This has been addressed within section 9 (REC 13 / 14) of the report.

7.9 Pilot Schemes in Wigan

There are currently two pilot schemes in operation. One is a debt advice service in the Ashton area (no information obtained at the moment). Secondly, Welfare Rights pilot scheme based at Westleigh Housing Office provides advice and assistance to tenants. The service is available two afternoons per week to date, they have received 50 enquiries, six of which were identified as debt cases. A summary of these are provided below:-

- £20k of debt
- rent arrears and multiple debt (client reluctant to seek advice)
- rent arrears
- two clients paying current rent and arrears with no apparent problems.

Age profile of clients are listed below;

- 18-21 7
- 21-30 10
- 31-40 8
- 41-50 9
- 51-60 6
- 60+ 10

In addition to the scheme a formal referral procedure with Wigan and Leigh CABs has been operating since May 2002. To date referrals of tenants with debt problems have been forwarded to CABs, however there has been no consistency between the offices. Area offices now complete a simple one-page referral form which tenants agree and sign. This information is forwarded onto CABs. The referral procedure is in its infancy but initial comments from CABs have been encouraging. During May, Leigh CAB received nine referrals all of which were seen by an advisor within one week and Wigan CAB received 20 referrals. A similar procedure has also been adopted by WIAC.

This procedure is in its infancy and no further information is available at this present time.

As the pilot schemes are in their early days further information is not available at this present time.

To summarise the amounts of benefits raised on behalf of tenants by independent organisations in Wigan are illustrated below:-

Financial year 2001/02

Leigh CAB	£553.007
Wigan CAB	£3.286.920
WIAC	£1.390.512
Welfare Rights	Grants approx £100.000
Total	£5.230.439(exc. grants)

8 CONCLUSIONS

- 8.1** The key conclusions from this review are as follows. Our overall view is that the levels of debt are increasing and becoming more problematic within the Borough.
- 8.2** Firstly, some of the comments on the activities of loan sharks obtained by interviewees have been considered. However, without factual information there are limitations of their ability to enforce prosecution by GM Police.
- 8.3** The review has clearly identified that Wigan Borough has deep problems of debt. The demand for debt advice is increasing. There is a need for debt advice to be delivered by an independent organisation. The public would welcome such an advice service. It is evident that the current levels of services provided within the Borough for welfare / debt advice etc have little or no links at all with one another.

9 RECOMMENDATIONS

R1 -Prepare / update policy and procedures of dealing with debt

R2 -Map processes and evaluates effectiveness of dealing with debt

R3 - Establish base line data of users

R4 - Consult with % of clients who use the debt services

R5 - To establish clearly defined roles and responsibilities of CABs / Welfare rights and WIAC

R6 - Co-ordinate services of voluntary organisations in order to deliver client – focused support to members of the community

R7 -To establish rigorous systems of accountability

R8 -Annual review of service level agreements

R9 - Produce a marketing and promotion campaign

R10 - Establish / implement a marketing strategy

R11 - Design Web – site (Debt self – help guide)

R12 – To replicate the St Helens model of establishing a Steering Group to actively promote the use of Credit Unions within the Borough

R13 - Review activity and effectiveness of credit unions

R14 - Increase memberships

R15 - Widen participation of credit unions

R16 – Link the review to the Social Inclusion Strategy

R17 – A timetable to be developed and reported back to Overview and Scrutiny Committee

9 DRIVING FORCES FOR CHANGE

- 9.1** Wigan Council resources are deployed to the voluntary sector organisations that provide debt advice. The review clearly highlights that resources need to be used effectively in order to respond to the increased demand for debt advice by members of the community. If Wigan as a Council is to protect those clients who are vulnerable and direct them away from the known unscrupulous lenders then alternatives must be found.

10 PROPOSALS FOR THE FUTURE

Proposals must be based on the evidence found and what the Borough needs to achieve in order to provide opportunities for all citizens and make the Borough a more attractive and safer place. In order to meet the needs of the community, the Council now needs to:

- Consider the evidence presented in this review and develop a strategy for the provision of effective debt advice
- Improve monitoring and evaluation the effectiveness of the use of resources deployed
- Actively promote the development of credit unions and other properly regulated lending organisations in the community

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