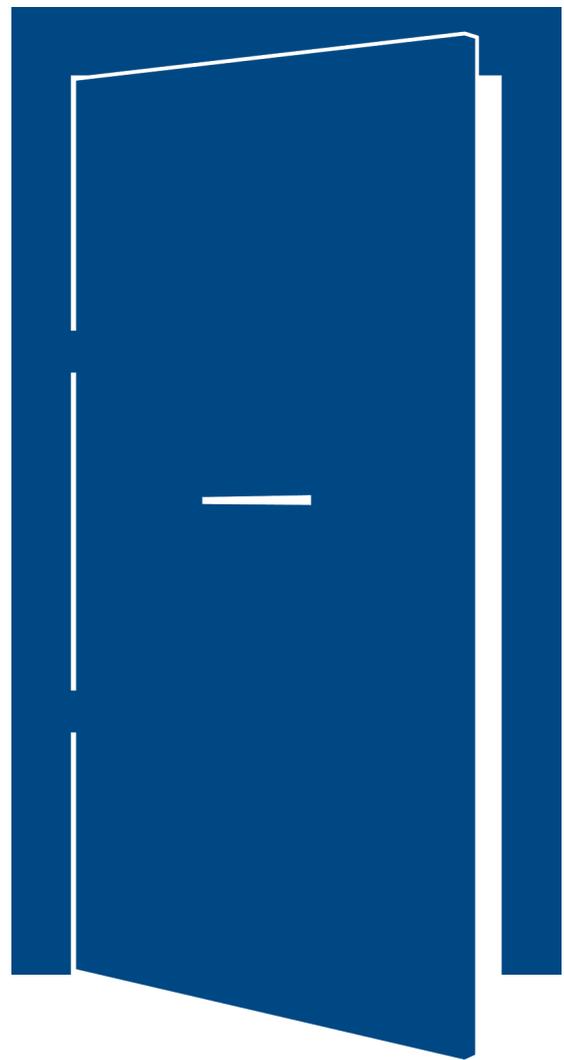


# Debt on your doorstep

Problem debt in the home  
credit market



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# Overview

Citizens Advice helps hundreds of thousands of people each year who are struggling with debt. Although borrowing is positive for the vast majority of consumers, high-cost credit can mean people quickly spiral into unmanageable debt.

The largest high-cost credit loan market in the UK is for doorstep loans which are used by over 1.3 million customers. Last year Citizens Advice helped an estimated 23,600 people with unmanageable doorstep loan debts. Our evidence shows that those unmanageable debts can be caused by high-pressure sales tactics, poor affordability checks, and aggressive repayment collection practices.

This is the latest in a series of reports which have looked into how different high-cost credit markets operate and identifies areas where lending regulations could be changed.<sup>1</sup> The doorstep loan market needs better regulation, including stronger rules on affordability checks and restrictions on loan refinancing. The Financial Conduct Authority should use its review of high-cost credit to build on the success of the regulation of payday lending by extending the total cost cap on payday loans to all forms of high-cost credit, providing consistent protection across all high-cost credit markets.

## The doorstep lending market

### What are doorstep loans?

Doorstep loans, or 'home credit' loans, are provided directly to customers' homes by lending agents who return each week to collect repayments. Loans are typically from £100 to £1,000, although at least one major lender offers repeat customers loans of up to £2,000. The interest rate on loans is variable and is generally higher for smaller loans or loans taken out over a shorter time period. Financial Conduct Authority (FCA) analysis of the Wealth and Assets Survey 2012-14 placed the median loan size at £500.<sup>2</sup> Figure 1 illustrates the cost of doorstep loans with the 4 largest lenders.

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<sup>1</sup> We have previously published research on [hire purchase](#), [payday loans](#), [guarantor loans](#) and [logbook loans](#).

<sup>2</sup> Financial Conduct Authority, Occasional Paper 20: '[Can we predict which consumer credit users will suffer financial distress?](#)' 17.

**Figure 1: Example of loan costs with the 4 largest providers**

Loan amount	Provider	Weekly Payment	Length (weeks)	APR	Interest charged	Total repaid
£200	Mutual	£10.00	26	188.0%	£60	£260
	Loans at Home	£10.00	33	433.4%	£130	£330
	Morses Club	£15.00	20	756.5%	£100	£300
	Provident	£12.00	26	535.3%	£112	£312
£500	Mutual	£13.73	51	104.0%	£200	£700
	Loans at Home	£20.00	45	340.0%	£400	£900
	Morses Club	£17.50	52	272.5%	£410	£910
	Provident	£18.00	52	299.3%	£436	£936
£1000	Mutual	£27.45	51	104.0%	£400	£1,400
	Morses Club	£35.00	52	272.5%	£820	£1,820
	Provident	£36.00	52	299.3%	£872	£1,872

Source: Citizens Advice analysis of lender websites. Figures correct on 14 February 2017.

Depending on the loan provider there may be no penalty fees for late or missed payments. This makes doorstep loans attractive to people who may be worried about keeping up with repayments.

## Who uses doorstep loans?

There is no definitive data on the overall size of the doorstep loans market. An estimate by Citizens Advice based on major companies' reported customer numbers puts the market size at over 1.3 million customers. The largest providers account for the bulk of this figure. Last year Provident had 900,000 customers, Morses Club had 200,000, Loans at Home had 95,000, and Mutual had 40,000.<sup>3</sup> The Consumer Credit Association states that there are over 420 home credit businesses in operation.<sup>4</sup>

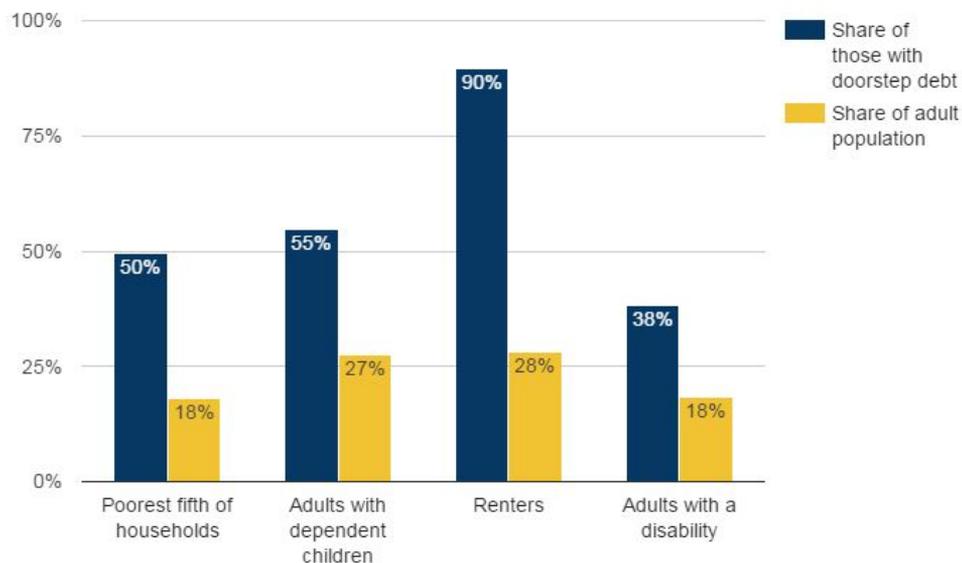
<sup>3</sup> These figures come from respective companies' Annual Reports or websites.

<sup>4</sup> Consumer Credit Association, '[Information for businesses](#)'.

Doorstep lending is the largest high-cost credit loan market, but it is shrinking. Provident, for instance, has reported a steady decline of customers over the past 5 years from 1.9 million customers in 2010 to less than half that now.<sup>5</sup>

Doorstep loans are predominantly used by people in low income households. Citizens Advice analysis of the Wealth and Assets Survey 2006-14 shows that doorstep loan customers in the survey were more likely than the adult population to experience vulnerability or live in insecure situations. Half of customers are in the lowest earning fifth of adults, the majority of customers (90%) are renting and nearly 40% have a long-term illness or disability.

**Figure 2: Characteristics of doorstep loan customers**



Source: Citizens Advice analysis of the Wealth and Assets Survey 2006-14

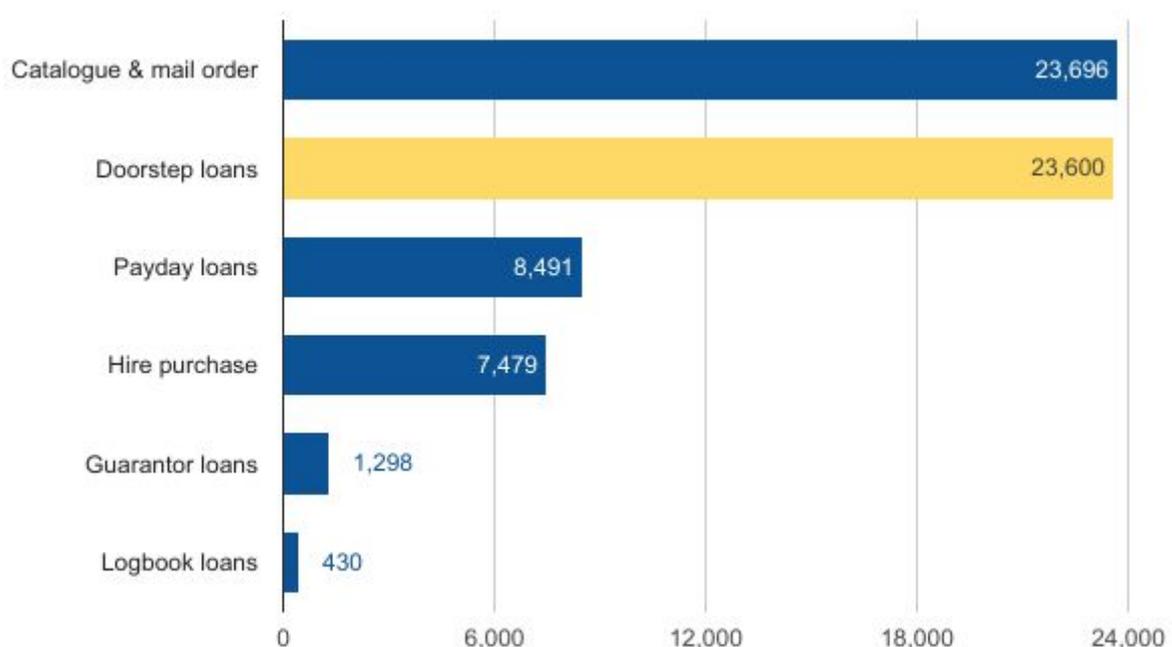
Parts of this customer profile seem to be the result of deliberate targeting. One major lender states that its target customer is often a middle-aged female in part-time/casual employment, having a low income of £10-£15,000 per annum, limited indebtedness and typically living in rented or social housing.

<sup>5</sup> Provident Financial Group, '[Annual Report & Financial Statements 2010](#)'.

## How do doorstep loan customers experience debt?

Analysis by Citizens Advice of its data shows that advisers helped an estimated 23,600 people with doorstep loan issues last year.<sup>6</sup> Citizens Advice helps more people with doorstep loan debt issues than any other high-cost credit loan.

**Figure 3: Total high-cost debt clients by type of debt**  
(Q4 2015/16 - Q3 2016/17)



Source: Citizens Advice

Looking at those debt issues in more detail, the average doorstep loan debt in the first two quarters of 2016/17 was worth £690 and a third of clients seeking debt advice had been able to take out multiple doorstep loans. A fifth of clients held 2 doorstep loans; 6% held 3 doorstep loans; 3% held 4 doorstep loans and 3% held 5 or more doorstep loans. Two individuals had been able to take out 14 doorstep loans.

<sup>6</sup> Citizens Advice does not currently record doorstep loans as a separate Advice Issue and so it is impossible to see an exact figure of clients who received advice for doorstep loan problems. Over the past 4 quarters, 58,420 unique clients received advice for 'unsecured personal loan debts'. Of these, 20,603 (35.27%) had their details recorded in our electronic case recording module for complex debt casework. 4,162 unique clients were identified in this group as having doorstep loan debts in the first 2 quarters of 2016/17, which we assumed to be 8,324 over 4 quarters. This gives an estimated 23,602 clients who received doorstep loans advice.

More generally, analysis of the Wealth and Assets Survey 2012-14 by the Financial Conduct Authority found that large numbers of home credit users suffer financial distress - 25% of users in the most recent survey were in arrears, although the FCA states this figure should be treated with caution.<sup>7</sup>

**Figure 4: The experience of doorstep loan customers**



Source: Citizens Advice

<sup>7</sup> Financial Conduct Authority, Occasional Paper 20: [‘Can we predict which consumer credit users will suffer financial distress?’](#) 19-20.

# What causes doorstep loan debt problems?

Analysis of bureau evidence forms submitted by local Citizens Advice about the problems people with doorstep loans face, highlights 3 common causes of unmanageable doorstep loan debt.<sup>8</sup>

## Pressure sales

For a majority of loans issued, the client initiates an application - normally either online or over the phone - and is then visited by a lending agent who completes their application and issues the loan. However, Citizens Advice advisers see large numbers of cases where clients have not initially sought out a doorstep loan themselves. In our analysis of evidence forms, more than 1 in 10 loans were initiated by an unsolicited visit from a doorstep lending agent rather than a client application.

It is also common for doorstep loan customers to take out repeat loans with an agent. In some cases, rather than offering repayment plans to customers who are struggling with an existing loan, lending agents pressure customers to take out a new loan to refinance their existing debt. Lending agents may benefit financially from repeat borrowing or keeping customers in a cycle of debt, as reliable customers offer a steady stream of payments and therefore commission.<sup>9</sup>

In one case, an older client was struggling to pay off a loan to one lender and asked the agent if he could pay back smaller amounts over a longer time period. The agent refused and instead offered the man a new doorstep loan to cover the existing debt.

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<sup>8</sup> Bureau evidence forms are used by advisers to record cases which demonstrate a policy or practice issue affecting clients. We use these to identify policy areas which could be reformed.

<sup>9</sup> Commissions for one company were described as being between £6 and £9 per £100 collected. BBC One Panorama, '[Undercover: Debt on the Doorstep](#)' (7 October 2012). In our analysis we could not find any evidence to indicate what current commission rates are.

In another case, a single parent with a young child was struggling to pay her doorstep loan and other debts. Despite telling the lending agent that she was struggling to keep on top of her debts, the agent repeatedly offered the client a new doorstep loan. The client came to Citizens Advice and commented that, despite knowing it would be a poor financial decision, it was becoming increasingly tempting to take out a new loan for the immediate cash.

The benefit to lenders of keeping customers in a refinancing cycle was previously observed in the payday loans sector. Before the payday lending cap, an Office of Fair Trading report found that almost 1 in 3 payday loans were refinanced by customers who were largely captive, and that this accounted for half of all revenue from payday lending.<sup>10</sup> Refinancing is now restricted in the payday loan market, but not for doorstep loans.

Citizens Advice also saw cases where doorstep lenders targeted multiple members of the same household.

In one case, a single client in receipt of benefits had 4 dependent children at home (3 adults and one under 18), all of whom had learning difficulties and were in receipt of Disability Living Allowance. The client himself struggled to pay back £130 a week for a number of doorstep loans totalling £1,800. On visiting his house when the client was away, the lending agent signed up the 3 adult children to take out a doorstep loan, despite their learning difficulties and indications they didn't understand what they were agreeing to. Subsequently their DLA payments were being used to directly service their doorstep loan repayments.

This case also shows that lending agents don't always carry out proper enquiries to assess a client's understanding in line with FCA guidance on mental capacity found in the *Consumer Credit Sourcebook* (CONC), which is the FCA's specialist sourcebook for credit-related regulated activities.<sup>11</sup>

Previous research from 2004 by the Office of Fair Trading, in response to a Citizens Advice super-complaint, indicated that doorstep sales often result in poor consumer decisions.<sup>12</sup> More recently, in the energy sector doorstep sales

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<sup>10</sup> Office of Fair Trading, '[Payday Lending: Compliance Review Final Report](#)' (March 2013) 11.

<sup>11</sup> CONC 2.10.

<sup>12</sup> Office of Fair Trading, '[Doorstep selling: a report on the market study](#)' (May 2004).

attracted controversy and greater regulatory intervention, which is one factor in why the practice is no longer used by major suppliers.<sup>13</sup>

Going to people's homes to sell them and their family loans puts people in a vulnerable and high-pressure situation. The offer of an immediate cash loan at their doorstep can lead some customers to make poor financial decisions.

## Poor affordability checks

Citizens Advice advisers also see cases which demonstrate that adequate affordability checks are not being carried out. Some vulnerable clients are being provided with loans they are unable to afford.

Customers in the case analysis who were able to take out doorstep loans included unemployed parents in receipt of disability benefits and older clients reliant on a State Pension. Two thirds of clients in the case analysis had a disability or long term health condition. Many of these clients ultimately used benefit payments such as their Disability Living Allowance to pay off their doorstep loan, rather than to support their essential living needs.

One client who came to Citizens Advice for help was a single parent to 2 young children who was receiving Disability Living Allowance for her learning difficulties. She contacted Citizens Advice as she was struggling to pay existing debts as well as make payments on 3 doorstep loans she had been able to take out with the same lending company.

The lack of adequate affordability checks is evident in cases where customers struggling with existing debts have managed to take out new doorstep loans.

An older, disabled man with no assets came to Citizens Advice for debt advice for 2 doorstep loans he could not repay. Despite relying on a State Pension alone and having taken out a Debt Relief Order in the preceding 6 years, he was able to take out 2 loans in one day with a doorstep lender, even though it would have been cheaper to take out a single loan of the total amount borrowed. The client did not appear to understand the state of his finances nor the 2 different APRs attached to each loan.

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<sup>13</sup> Competition & Markets Authority, '[Energy markets investigation: Final report](#)' (June 2016) 362.

Our evidence suggests that some clients are receiving doorstep loans they can't afford because not all doorstep lenders are performing adequate creditworthiness assessments.

## Intimidating collection practices

The third major cause of problem debt in the home credit market is the collection practices of lending agents and the way customers in financial difficulty are treated. Many agents earn commission on the repayments they collect meaning they are less likely to demonstrate proper forbearance.

Although some clients have a good personal relationship with their doorstep lender, Citizens Advice has seen examples of extremely poor practice. This includes lending agents threatening to tell clients' families or neighbours about debts, harassing clients for repayments in public locations, and demanding payments by family members or friends, in contravention of FCA rules.<sup>14</sup>

This aggressive form of debt collection can mean that some doorstep loan customers miss payments on priority debts. Multiple clients seen by Citizens Advice with a doorstep loan fell behind on council tax payments or their energy bills in order to repay their loan. Around one in ten of clients in our analysis of bureau evidence forms indicated they were unable to afford food as a result of prioritising their debt repayments.

One client with learning difficulties was loaned money through a doorstep loan. Towards the end of his loan, 2 lending agents came to his house and offered another loan. One agent told the client that he would be taken to court and could be sent to prison if he didn't repay the new loan on time. As a result the client was terrified of missing repayments and stopped paying rent and water debts in order to pay off the loan.

In the most extreme instances, aggressive collection practices involve families going through bereavement and ill health.

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<sup>14</sup> CONC 7.9.6R.

A single parent was £2,500 in doorstep loan debt. On the same day that his 9 year old son died, the lending agent came to his home and demanded payment. Despite having the situation explained, the agent refused to leave and escorted a family member to an ATM to withdraw cash and make a £250 payment.

An older, disabled client who is blind had suffered multiple strokes and required regular hospital visits as part of her treatment. The client's lending agent regularly visited the hospital to collect payments despite being asked repeatedly by the client not to. This breached the client's privacy and caused severe stress and embarrassment which worsened her health.

Despite offering convenience, the personal nature of doorstep loans means clients are often under pressure to make unaffordable loan repayments. FCA rules and guidance already prohibit much of the poor practice which Citizens Advice sees.<sup>15</sup> Despite this, some lending agents use the personal collecting relationship aspect of doorstep lending to obtain a repayment advantage over other lenders. This can cause clients to ignore their priority debts which can lead to further detriment.

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<sup>15</sup> See, eg, CONC 6.7.17R, 7.5.2R, 7.9.4R, 7.9.6R, 7.9.7R, 7.9.14, 7.9.15G.

# Policy Recommendations

## Door-to-door sales

Citizens Advice would like to see an end to door-to-door sales of doorstep loans. Our analysis demonstrates that door-to-door sales of high-cost credit can result in high levels of detriment amongst vulnerable consumers. We have seen examples where door-to-door sales operate against the guidance on General Principle 6 of the *Principles for Business* - to pay due regard to the interests of customers and treat them fairly - through targeting of vulnerable customers and high pressure sales techniques.<sup>16</sup> In other markets, such as the energy sector, door-to-door sales have been discouraged by regulators.<sup>17</sup> The FCA should investigate and address the inevitable detriment of doorstep credit sales.

## Affordability checks

The FCA should make its guidance in the *Consumer Credit Sourcebook (CONC)* on responsible lending into rules. For providers of high-cost credit, affordability checks should require, as a minimum, proof of income and expenditure.

The FCA should also review rules and guidance on creditworthiness assessments with a view to strengthening the extent and scope of assessments under CONC guidance 5.2.3. New rules or guidance should require specific regard to a client's financial position, commitments and vulnerability. This would include consideration and assessment of the customer's personal circumstances, including whether the customer has dependents, caring responsibilities or a disability, and whether the customer is in receipt of benefit payments for these.

## Improved collection practices by lending agents

The poor behaviour engaged in by some lending agents is already in breach of the FCA's rules regarding debt collection. There is a clear gap between rules, practice, and enforcement. Citizens Advice recognises that it may be difficult to take enforcement action against lending agents who operate independently across different communities. The FCA should consider whether its current supervision of firms who engage in door-to-door sales is effective, and

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<sup>16</sup> CONC 2.2.2G (1) and (2).

<sup>17</sup> Competition & Markets Authority, '[Energy markets investigation: Final report](#)' (June 2016) 362.

introduce stronger requirements upon firms to include specific training for lending agents on required standards of debt collecting behaviour.

## **Stronger refinancing rules**

The existing rules which place a limit on refinancing payday loans no more than twice should be extended to cover other forms of high-cost credit, including doorstep loans.<sup>18</sup> There should also be a rule that customers who refinance a doorstep loan are provided with an information sheet on refinancing and debt advice in the same way payday loan customers are.<sup>19</sup> Additionally, guidance which restricts unsustainable or otherwise harmful refinancing should be strengthened into rules.<sup>20</sup>

## **Commission Disclosure**

In addition to an end to door-to-door sales practices, Citizens Advice would welcome action on commissions within the doorstep lending market. The FCA should investigate how lending agent commission incentives operate and whether they act against customers' best interests. One option may be to introduce compulsory disclosure of commission by doorstep lending agents. Requiring lending agents to disclose the commission they get from sales and collection would increase transparency in the doorstep loans market. It may be possible to achieve this by extending CONC rules 4.5.3 and 4.5.4 - on compulsory disclosure of commission by credit brokers - to cover doorstep lending agents within the home credit market.

## **Extending a price cap**

Citizens Advice would like to see a cap on interest and fees, similar to the payday loans cap, extended to doorstep loans. Currently home credit is excluded from the FCA's definition of high-cost credit explicitly, removing that exclusion would extend the cap to home credit providers. While no major provider charges interest or fees above double the initial loan amount, extending the cap to home credit would act as a safeguard for consumers in financial distress and stop financial difficulties from spiralling into severe problem debt.

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<sup>18</sup> CONC 6.7.23R.

<sup>19</sup> CONC 6.7.20R.

<sup>20</sup> CONC 6.7.21-22G.

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