

Life on debt row



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Foreword



Michael Sheen
Actor

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Credit is a fact of life and for many of us it can be a useful tool to spread payments, and allow us to buy things we couldn't ordinarily purchase. But while it's broadly agreed that credit has many benefits, some people are excluded from getting it on favourable terms and may have to resort to other forms.

Those other forms might entail higher interest rates, less attractive repayment terms and paying a lot more back. It is often the case that those who are excluded from affordable forms of credit and fairer finance have little choice but to use more expensive credit - those who can least afford it are penalised more.

As the respective founder and Chair of the End High Cost Credit Alliance we are working together with a range of organisations to provide the opportunities to deliver improvements in the availability of fair finance across the UK as well as a strengthened safety net for those who need it.

The impact of debt on our lives is not just financial. Increasingly it is recognised as a public health issue. That is why the Royal Society for Public Health (RSPH) was delighted to join the End High Cost Credit Alliance. One of the first outputs from this Alliance is Life On Debt Row; a report which aims to better understand the impact of credit, in particular high cost credit, on our health and wellbeing.

This report hopefully adds to the evidence base and provides a snapshot of the impact debt can have on the public's health and wellbeing – whether that includes increasing levels of stress and anxiety, making people feel more isolated and socially excluded and impacting on other areas of our lives such as housing, employment and education. These findings suggest how damaging it is when we have an economy, culture and infrastructure which enables finance providers to seek profit over our health and wellbeing. The report also proposes a number of recommendations - not just to policy officials, regulators and consumers, but crucially from the finance sector itself who must now be held accountable for more than the financial damage caused by their practices and products.

Over the months ahead we will use the findings from this report to stimulate further debate and will be calling on our partners to review the recommendations and back a number of the proposed actions. We anticipate that this is the first of many pieces of work within the public health arena and serves as a great starting point for debate on the actions needed.

It is clear through the interactions with communities that the issues which credit can create, both negative and positive, should be better understood and responded to by regulators, policy makers, the public and public health professionals.



Shirley Cramer CBE
Chief Executive, RSPH

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Introduction

In the UK today, there is £1.71 trillion of household debt, of which £242 billion is consumer credit,¹ the latter having increased by 34.5% since 2012.² Consumer credit debt is concentrated in just over half of the population, with the average amount owed by these borrowers standing at around £8000, and more than six million Britons believe that they will never be debt-free.³ In 2016, nearly nine million people in the UK used credit to pay for everyday household expenses.⁴

Credit is not inherently a bad thing. It can be useful for smoothing out fluctuations in income and expenditures⁵ and can provide capital for investment in a wide range of activities that can assist in household formation and improve productivity. If provided at affordable rates and on fair terms, it could help to alleviate the effects of poverty and assist people to find a route out of this.⁶

However, the development of the consumer credit market over the past thirty to forty years has involved highly regressive pricing, and targeted low income households with predatory products, including payday loans.⁷ Far too many households have become ensnared in persistent debt – paying out very high proportions of their incomes to their creditors which forces them to cut back on essential spending and creating material deprivation.⁸

Following the financial crisis of 2007/08 there remains a considerable ‘debt overhang’ which is weighing on low to middle income households in particular. Although the amount of outstanding consumer credit reduced in the immediate aftermath of the crisis – through to the start of 2012 – it has since risen. Consumer credit borrowing has particularly expanded in the past three years as households have been faced with an unprecedented squeeze on household incomes. Outstanding consumer credit has increased by over 20 percent since the middle of 2015 and the total outstanding now exceeds its 2008 financial crisis peak by six percent.⁹

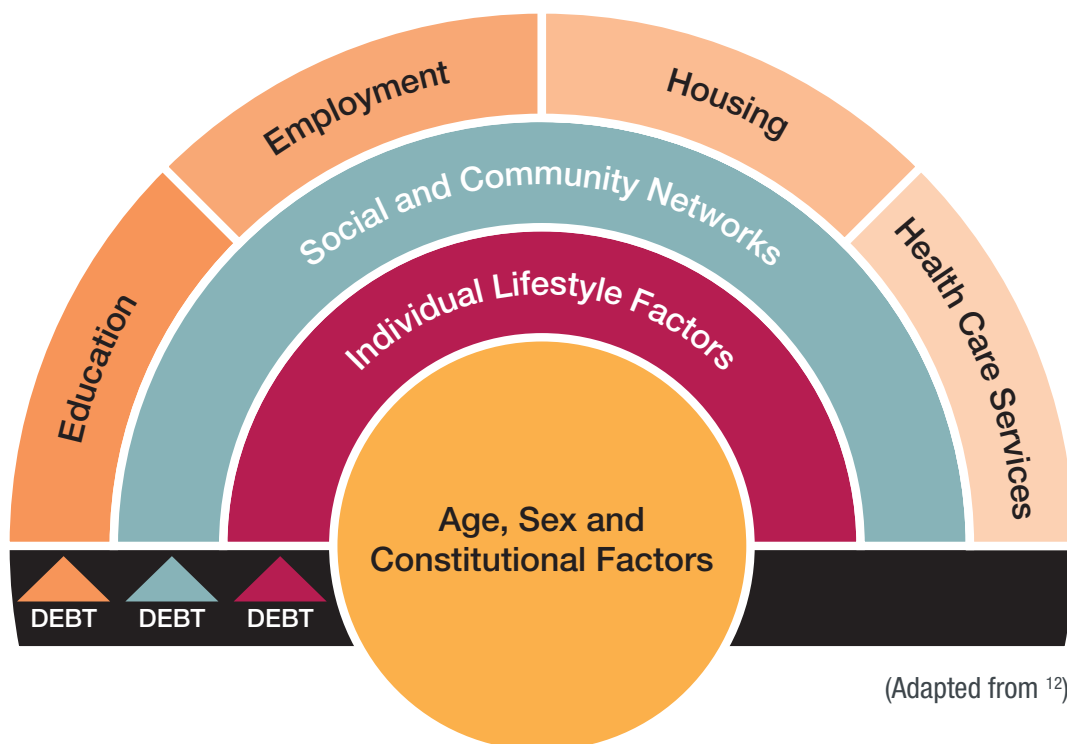
The Money Advice Service defines people experiencing problem debt as those who say they find keeping up with their bills and credit commitments a ‘heavy burden’, or that they have missed payments for bills and/or credit commitments in three or more of the last six months.¹⁰

The impacts of problem debt are not solely financial and can extend beyond the individual themselves to affect family members, employment, housing and, as this report highlights, health. The health impacts of debt can be far ranging, including mental and physical outcomes, as well as leading to changes in behaviour, such as smoking and alcohol use, which have clear negative health impacts of their own.¹¹ Furthermore, there is inequality in the impact of debt on health as individuals with lower socio-economic status are more likely to be forced to use high cost credit, including that provided by payday, rent to own, and door to door lenders. Like most health determinants, debt has the greatest negative impact on those most vulnerable in society, deepening already entrenched health inequalities.

This report seeks to highlight how different forms of credit individually and collectively, can potentially impact upon health and wellbeing. We examine the most common forms of credit in the UK and investigate which have the biggest impact on mental health. We also look at a range of other ways that debt might affect health – social wellbeing and connection with others; health behaviours, such as smoking and alcohol use; and housing, transport, education and access to healthcare, all of which are determinants of health in their own right. From this we make policy recommendations about how lending practices might be improved to ensure that health is a primary consideration when credit is provided.

Debt as a determinant of ill health

The social determinants of health are a range of factors that combine to influence an individual's health status. Dahlgren and Whitehead¹² conceptualise them in a semi-circle with influences layered on top of each other. At the centre are individual genetic characteristics with which we are born and determine many of our characteristics. Then individual lifestyle factors – the choices we make everyday about how we live our lives, what we eat, the exercise we do, whether we smoke or drink alcohol to excess. Above these are social and community networks – the relationships we have with others and the support that can be drawn from them – and living and working conditions. These include education, housing, employment, water and sanitation.



Debt is a contributor to poor health. It has been linked to poorer self-rated physical health,¹³ disability,¹⁴ chronic fatigue¹⁵ and obesity.¹⁶ A systematic review and meta-analysis by Richardson et al (2013) found a long list of statistically significant relationships between debt and negative health outcomes: presence of a mental disorder, suicide completion, suicide attempt, problem drinking, drug dependence, depression, OCD, panic disorder, generalised anxiety disorder and psychotic disorders.¹⁷ It can also impact on the wider determinants of health, for example, housing situation and social networks.

The relationship between debt and health is likely to be bi-directional, with debt resulting in poorer health outcomes, and individuals with poorer health being more likely to use credit and find themselves in debt.¹⁸ It is also mediated by an individual's circumstances and the type of debt.¹⁹

The social determinants of health are clustered, not random, and almost always impact those with lowest socio-economic status (SES) the most. SES includes not just income, but level of education, financial security and subjective perceptions of social status and social class.²⁰ Those with lowest SES are most likely to have poor housing, poor working conditions or to be unemployed. Life expectancy and self-rated health are lowest in those with the lowest SES;



mental health problems, cancer and circulatory diseases are most prevalent.²¹ In addition, risk factors for cancer and circulatory diseases, including smoking and obesity are most common in individuals with low SES.²² Health outcomes improve as you move up the socioeconomic gradient.

This creates health inequality across society, with some individuals far more likely to experience poor health than others. These effects impact health across the life course and cumulate in inequality in life expectancy: a child born in Knightsbridge can expect to live until 90 years of age; a child born in East Ham just until 77.²³ As Theresa May put it, there is a *“burning injustice that, if you’re born poor, you will die on average nine years earlier than others”*²⁴

Low income households are much less likely to hold debt than median or high income households, however, where there is debt, it is more likely to be become problem debt. Problem debt is also more common in individuals who rent than in home owners.²⁵ Recent research from the Institute for Fiscal Studies highlights that 35% of those in the lowest income decile have debts of greater value than their financial assets compared to just 10% in the highest income decile. Furthermore, being in arrears with debts repayments is highly concentrated amongst the lowest-income households – 16% of those in the lowest income decile are in arrears compared with just 1% of those in the highest decile. There is also an education component: even where debt levels are the same, low-educated young adults are more likely to experience pressure in trying to service their debts than high-educated young adults due to higher rates of arrears.²⁶

Debt is therefore likely to be having a greater, negative health impact on individuals with low socio-economic status, exacerbating the impact of all the other determinants of health listed above.

In addition, when high cost forms of credit are used by individuals on low income or in insecure jobs, it can be because they have limited access to, or are excluded from, mainstream credit, due to thin credit files or no or poor credit histories.²⁷ This can feed into the poverty premium,²⁸ leading to greater risk of arrears and potentially higher impact on health for the borrower.

Types of credit

There are a large number of different types of credit available in the UK today.

The Financial Conduct Authority (FCA) distinguishes between high-cost short-term credit, other forms of high cost credit and more mainstream forms of credit.

High-cost short-term credit relates to credit in which the annual percentage rate (APR) is equal to or exceeds 100%. It must also be provided for a maximum of 12 months and due to be repaid within this period, and not secured by a mortgage, charge or pledge. It is largely used to describe payday loans.²⁹

High cost credit is then used by the FCA to refer to a range of other forms of credit with high APRs – weekly payment stores, doorstep loans, catalogue credit, store finance, guarantor loans and logbook loans.

Mainstream forms of credit refer to bank loans and other unsecured personal loans, credit cards and overdrafts. The latter, however, when unauthorised, are arguably a form of high cost credit and can be more expensive than using a payday lender.³⁰ Mainstream forms of credit are generally more accessible to individuals with a good credit history and an above average income than those without – i.e. they are more accessible to individuals with higher socio-economic status. Some forms may also require a bank account despite three percent of households with an average income in the UK not having a bank account – this rises to 5% of low income households,³¹ and is a particular issue for those living in temporary accommodation. These restrictions force many individuals to use high cost forms of credit.

Most consumer credit is regulated under the Consumer Credit Act (1974) which was subsequently updated in 2006.³² It provides protection to users of credit and store cards, personal loans, hire purchase and catalogue loans, to ensure that lenders follow rules about dealing with arrears and difficulties meeting payments.

Marketing of consumer credit products is regulated by the Financial Conduct Authority (FCA) and the Advertising Standards Agency (ASA). Principle 6 of the FCA's high-level principles states that firms have to have due regard to the interests of their customers and treat them fairly.³³ Behaviour likely to contravene Principle 6 includes targeting customers with credit offers which are unsuitable for them by virtue of their indebtedness, poor credit history, age, health or disability.³⁴ There is also a requirement to consider mental capacity to enter into a credit agreement.³⁵

Mainstream credit

► Bank loans

A bank loan is a type of personal loan where you borrow a fixed amount for a fixed period of time and pay back an agreed amount every month. Banks have been tightening up their lending criteria over recent years,³⁶ making it more difficult for bank loans to be accessed.

► Authorised overdrafts

An authorised overdraft will be an amount that your bank allows you to go overdrawn without fees or charges. Beyond this, you enter into an unauthorised overdraft.

► **Unauthorised overdrafts**

Unauthorised overdrafts occur when an individual spends more than their agreed overdraft limit. The bank will impose high fees and charges on those who use an unauthorised overdraft. Changes to how unauthorised overdrafts work in the UK came into force at the end of 2017 that state banks have to set a monthly maximum charge that will be levied and advertise this to consumers. At the beginning of 2018 further changes were brought in, including consumers receiving overdraft alerts and a grace period before charging begins.³⁷

► **Credit cards**

Credit cards are one of the most mainstream and popular forms of credit. Interest rates range from less than 10% to over 70%, dependent in part on the credit rating of the borrower.

High-cost short-term credit

► **Payday loans**

Payday loans are a quick and easy way to access a loan of £100 to £1000 on a short term basis.³⁸ Users of payday lenders are on average 32 years old, with a low credit rating and an average income of £20,000. They have a median of five products with outstanding debt.³⁹

In January 2015, FCA regulations came into force that state that borrowers can pay no more than 0.8% of the amount borrowed per day, and a maximum of 100% of the loan in fees and charges. Default fees are also now capped at £15.⁴⁰ A recent review of these interest caps by the FCA suggests that, as hoped, the cap is making it less profitable for payday lenders to lend to those who were most likely to default on their loan repayments, and so the most vulnerable were less likely to be approved a payday loan.⁴¹

Other high cost credit

► **Catalogue credit**

Catalogue credit enables individuals to buy goods from catalogues and then spread the payments over a fixed period of time. The Financial Conduct Authority suggests that 7.6 million adults in the UK (14.7%) have outstanding catalogue debt, with 1.9 million consumers taking out the product every year. Catalogue credit users have a median age of 45, a median credit score of 63 and median estimated annual net income of £17,700.⁴²

► **Doorstep loans**

Doorstep loans are provided to consumers at their homes. Interest rates can be very high and loans are typically paid back weekly over 9-12 months. Home credit users have the lowest average incomes of all types of high cost credit borrower - £15,000 – although their debts are also on average lower (£2,800) than either payday lender or rent-to-own users.⁴³

► **Guarantor loans**

Guarantor loans are guaranteed by someone other than the borrower, generally because the borrower's credit rating is poor. The average age of someone with a guarantor loan is 33 with a median credit score of 40 out of 100. The average outstanding debt is £7,400 against a median annual net income of £20,800 – a 32% debt to income ratio. On average, a consumer will have six guarantor loans with outstanding personal debt.⁴⁴

► Weekly payment stores

Weekly payment stores, such as Brighthouse and Perfect Home, generally offer goods on the basis of hire purchase, and where interest rates are often over 50% APR over a period of three years. Under hire purchase agreements, the goods belong to the lender until the final payment has been received, and can be claimed back if the borrower defaults (even if they have paid the majority of the loan back). Weekly payment stores not only charge high APRs, they frequently add in extra costs, such as insurance or delivery charges, which will also be subject to the APR.⁴⁵

FCA analysis suggests that users of rent-to-own are an average of 36 years old and have a lower credit rating than payday lender customers (35 out of 100). Their outstanding debt is also higher - £4,300 and income lower - £16,100, creating a debt to income ratio of 29%. They have a median of eight rent-to-own products with outstanding debt.⁴⁶

Forty-five percent of rent-to-own users are in the bottom 20% of earners, 55% have dependent children, 77% are renting and 43% are disabled or have a long-term illness.⁴⁷

► Logbook loans

Logbook loans use your vehicle as security against the loan. They have high APRs (often 300% or more) and are paid back over 1-3 years. They are less common in Scotland due to differences in regulation.⁴⁸

► Store cards

Store cards work on the same principle of credit cards, however, they are for a specific shop, enabling you to pay for goods later and the use of store cards is normally incentivised. They generally have a higher APR than credit cards.

► Pawnbroker loans

Pawnbroker loans are obtained by pawning goods and receiving money in return. The goods can be bought back from the pawnbroker within a set time frame, or will be sold on.

► Store finance

Store finance works on a buy now, pay later basis, enabling individuals to take home household items, such as sofas and electrical goods and paying for them over time with a credit agreement. Around 10% of the UK population have outstanding retail finance debt, worth an estimated £6.0 billion. On average, a consumer using retail finance will have three products with outstanding debt, worth £4,300. The average age of someone using retail finance is 41, with a median income of £24,700 and median credit score of 69.⁴⁹

Other credit

► Credit union loans

Credit unions are community savings and loans providers. They are non-profit organisations set up to lend money to individuals who share something in common. For some credit unions this may be a geographical commonality, lending money to people living or working in a particular area. Others are based on job type, for example open to the police service or to teachers. There are about 500 credit unions in the UK and about a million UK members.⁵⁰ Credit union loans have interest capped at 42.6% APR, making them a more affordable option than many other types of credit.



Our research

There is a need for the impact of debt on health to be more widely recognised in our society. At RSPH we are also committed to tackling health inequalities and raising public awareness of the injustices that lead to a widening gap between the health of rich and poor.


Problem debt may be a cause of health inequalities and this report seeks to better understand the impact that it has in the UK today.

We put out a survey to members of the UK public to explore their experiences of using a range of forms of credit over the previous 24 months. Based on a literature review, we identified a range of ways in which problem debt might impact upon health.^{51, 52, 53}

These can be divided into four categories:

- **Mental wellbeing** – this was divided into five questions that asked how a particular type of debt made an individual feel. We asked to what extent trying to service the debt left them feeling: anxious; depressed; guilty; ashamed; and angry.
- **Social wellbeing** – we asked to what extent individuals isolated themselves as a result of their debt, either because they could not afford to participate in activities or because they felt too depressed or distressed to participate.
- **Behaviours** – we asked to what extent trying to service their debt led to changes in their behaviours. This included exacerbating or leading to unhealthy behaviours, such as smoking, drinking alcohol, use of illegal drugs, eating a less healthy diet and doing less physical activity than normal. We also asked whether other behaviours that might be indicative of poorer health changed – did they have to access food banks or take antidepressants?
- **Wider determinants of health** – debt can also influence health by affecting an individual's housing situation, education, employment or ability to access healthcare. Participants were asked to what extent this was true for them.





For the mental wellbeing questions, individuals were asked to consider a specific type of credit when responding as research has previously highlighted the need to “understand and measure these different types/sources of debt as they may evoke different [subjective wellbeing] outcomes”.⁵⁴ However, for the other three areas, participants were asked about their debt in general over the previous 24 months.

Along with these, we asked a series of demographic questions and for information about their current financial situation.

The survey was created on Survey Monkey and shared on social media and through newsletters by a large number of organisations working with individuals who may have used credit over the last 24 months. We also advertised the survey through Facebook marketing which was targeted at those who had ‘debt’ and ‘loans’ as areas of interest. The survey was open for two months between January – March 2018. Respondents answered anonymously and consented to the RSPH collecting their data on this topic prior to beginning the survey.

To supplement our quantitative research we also carried out a series of qualitative interviews and a focus group with individuals who have previously used different forms of credit. We have included some of the qualitative research in this report as case studies and some as stand-alone quotes that are inserted throughout the report to highlight the points being made. The qualitative research was also used to help form the recommendations at the end of the report.

Limitations

The survey was time-limited and as a result, for some forms of credit the sample size is lower than hoped. Participation by people who had used some of the less common forms of credit was also difficult to achieve, as few people use them.

Respondents were recruited through convenience and snowball sampling, which will mean that some people within the overall eligible population* will not have been invited to participate. In addition, as those who participated were self-selecting, the results are likely to be skewed towards individuals who, for example, enjoy doing surveys or who have time to participate. There are also low numbers of people who do not identify as white British and it is not possible to assess whether individuals with learning disabilities have been adequately sampled. These factors will reduce the external validity of the findings.

Finally, the self-reporting nature of the research means that we are relying on respondents to accurately assess their situation and be honest in their responses. We also rely on them to interpret questions in similar ways. While questions were tested before the survey was shared externally, there is likely to be some bias due to differences in interpretation and understanding.

* People over 18, living in the UK who had used credit in the last two years

Results

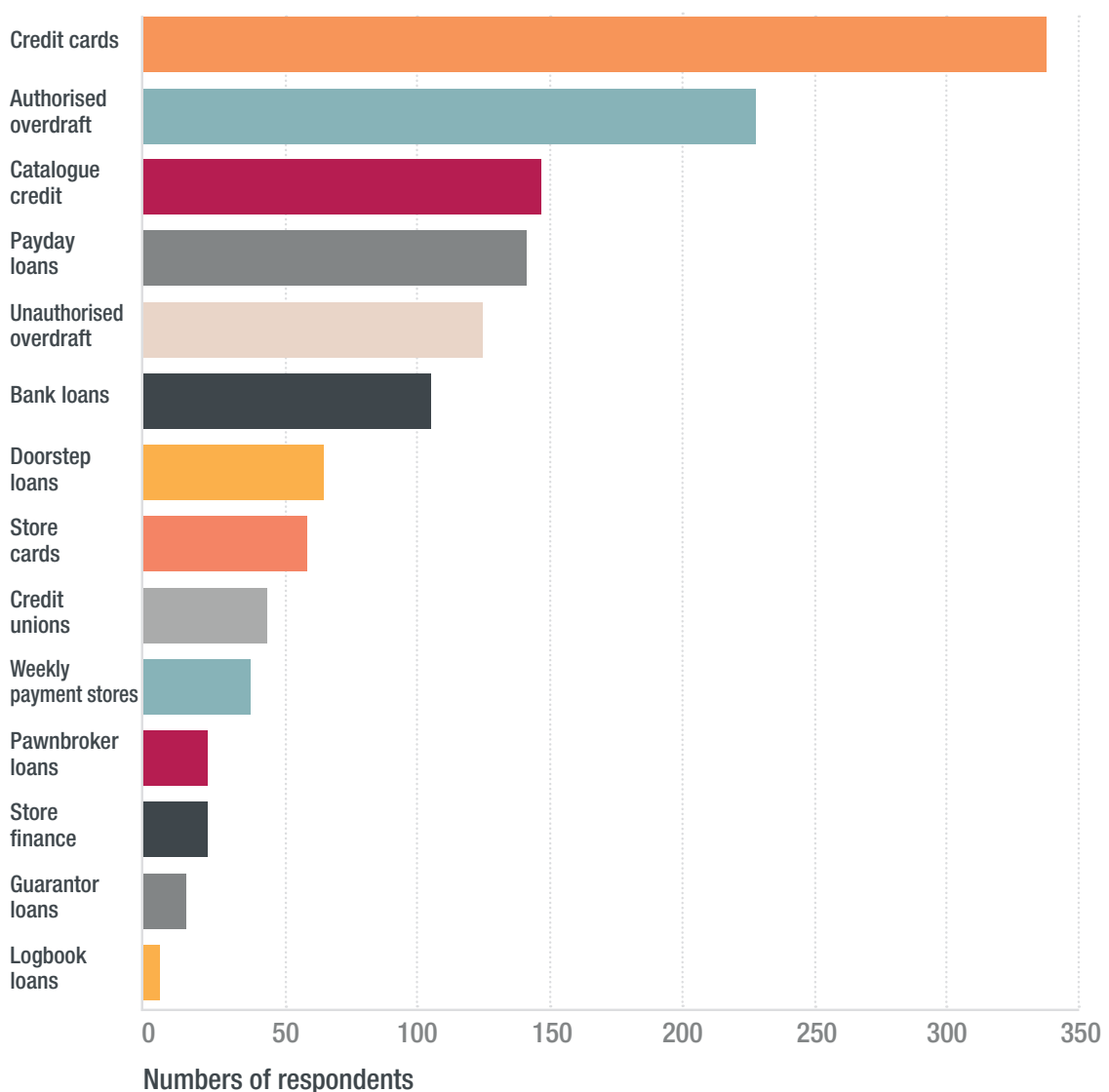
Overall we achieved 540 responses. The responses were skewed towards females (70%), despite an increased targeting at men through Facebook advertising after this skew had become noticeable. All areas of the UK were represented and respondents had a mean age of 44 years, ranging from 19-84 years old. The vast majority were British and of white ethnicity (88%). Just under half of respondents (45%) had an undergraduate degree or higher and 11% had no formal qualifications. Over half of respondents (53%) rated their health as just 'fair' or 'poor'.

The majority of respondents rented their home (30% from a social housing provider and 29% from a private landlord). While nearly a quarter (22%) lived alone, half (49%) lived with a partner and two fifths (42%) had children living with them.

Nearly half (45%) of respondents were employed full-time with just 1 in 10 unemployed and a similar proportion retired. More than half of respondents (55%) had a family take-home income of less than £400 per week and a quarter (24%) had less than £200.

Over a third (38%) of respondents said that if they lost their main source of household income, they would be able to cover living expenses without having to borrow any money for less than a week, and a quarter (27%) said they would only last between a week and a month.

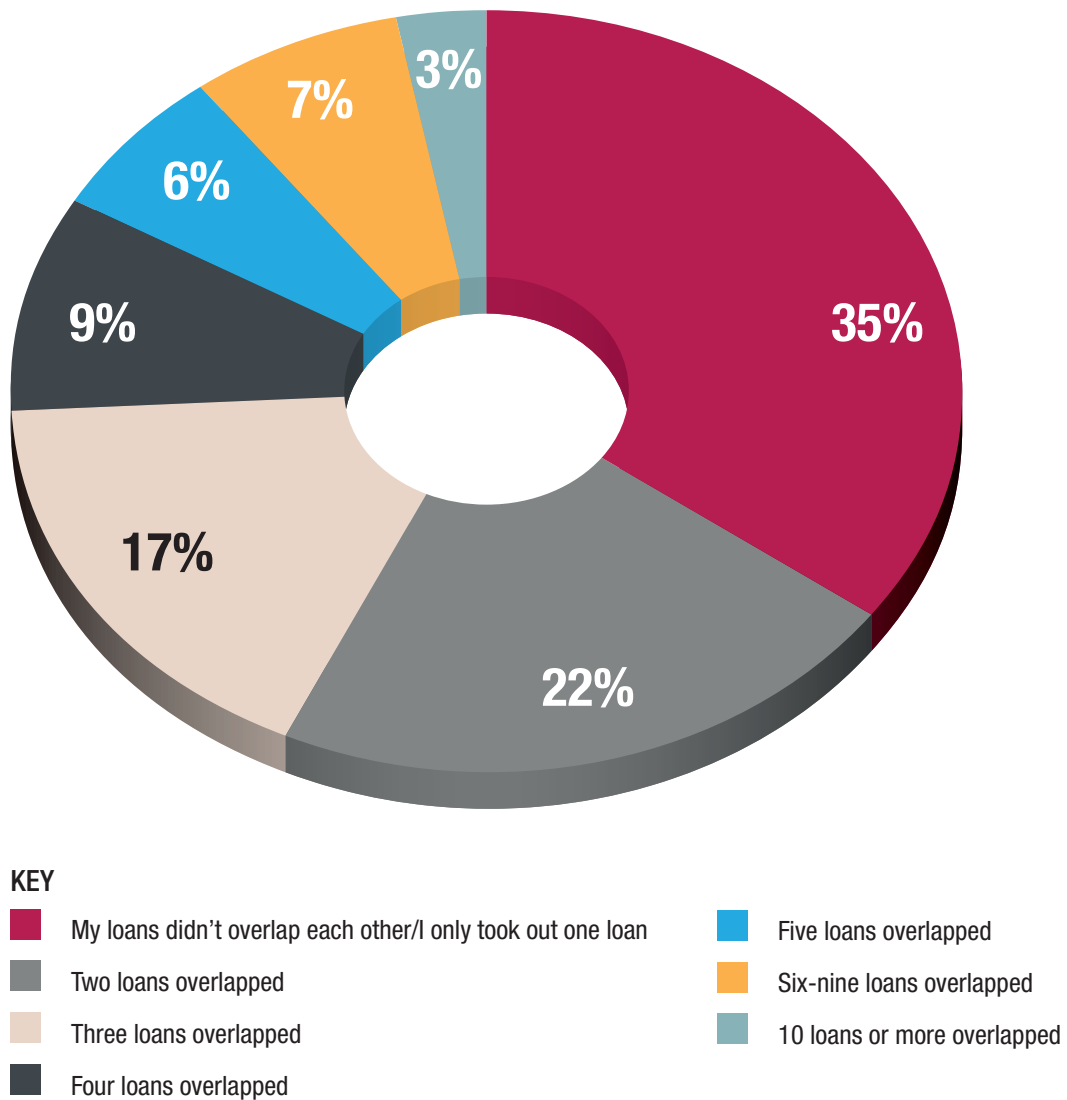
A large range of credit products had been used over the previous 24 months:



The most commonly used forms of credit used by respondents over the previous 24 months were credit cards (used by 63% of respondents), authorised overdrafts (42% of respondents) and catalogue credit (27% of respondents).

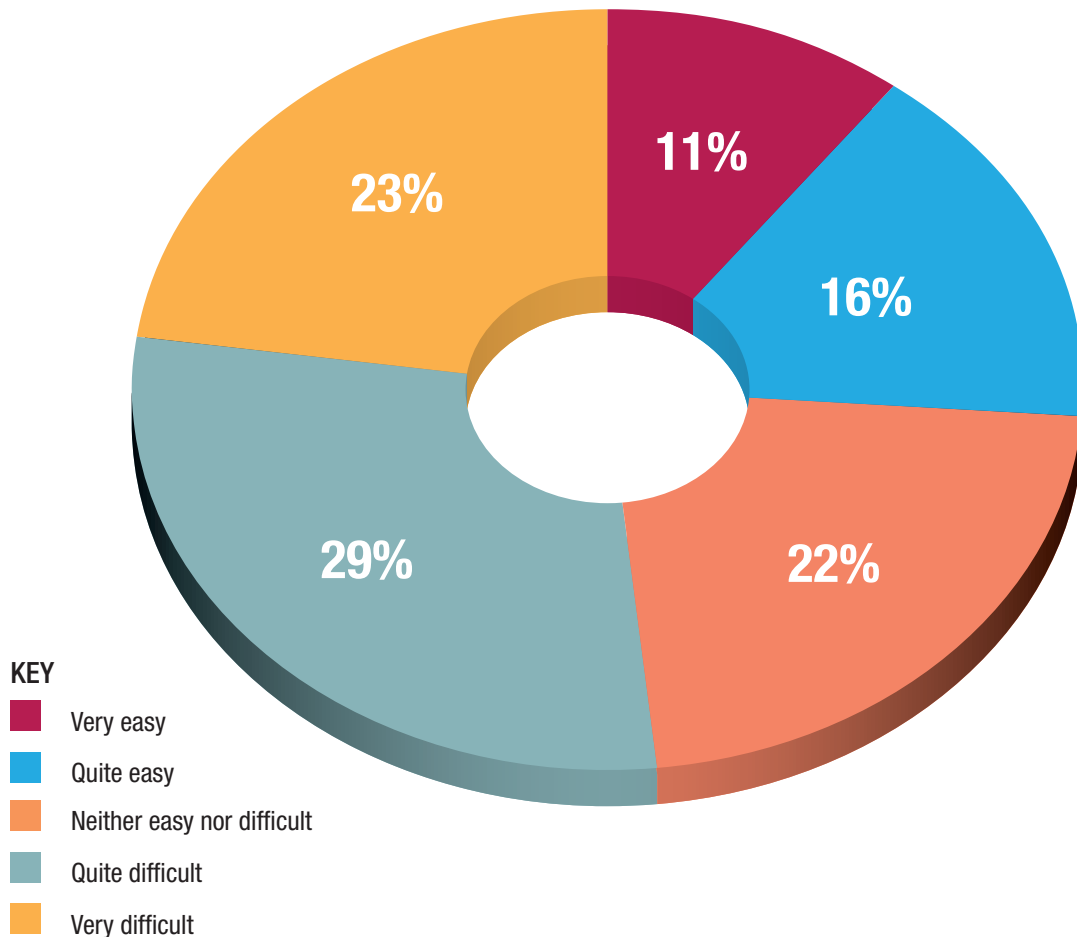
A third of participants had not had overlapping loans, but a fifth (22%) had two at the same time and 17% had three at the same time. Three percent of participants stated that they had taken out 10 or more forms of overlapping credit during the previous two years. At the point in time when they owed the most over the previous 24 months, a third said it was for £1000 or less. For 16% of individuals it was more than £10,000.

Percentage of respondents with overlapping loans:



We asked respondents how easy they had found keeping up with the repayments on their borrowing. The majority stated that it was quite or very difficult (52%).

How easy respondents found keeping up with repayments on their borrowing:



Nearly half of respondents (44%) had fallen into arrears on their borrowings. This rose to over two thirds (69%) of respondents who said they found it quite or very difficult to keep up with their repayments. The most common use of credit was for food/groceries, with over half of participants (51%) saying they had used their credit for this at some point in the last two years. A large proportion (41%) had also used credit to pay household bills, rent/mortgage (20%), to repair or replace household items (30%) and to pay for transport costs, such as car repairs or train fares (30%). Credit had also been used by a large number of people to pay for Christmas and birthday presents (37%) and for general shopping (34%). Those who found keeping up with the repayments on their borrowing difficult were more likely to use the credit for food/groceries (68%) and household bills (58%).

We also asked respondents about whether government changes to benefits (for example, the switch to universal credit and changes to disability living allowance) had affected their benefit entitlement over the last two years. A fifth (21%) said it had, and of these, a worrying 79% stated that it had led them to use more credit than they would have otherwise.

“ We had to get into debt to eat and sleep and heat the house – we didn't have no option, it was the only way to survive ”

The impact of debt on mental wellbeing

Payday lenders have the most negative impact on mental wellbeing, followed closely by unauthorised overdrafts.

For mental wellbeing, we rated each question from 1-5, with 'Strongly agree' rating 1 and 'Strongly disagree' rating as 5. These scores were then averaged for each question (whether keeping up with repayment on their, for example, bank loan, had made them feel anxious, depressed, ashamed, guilty and angry) and then summed and averaged across all five questions. This produced a score out of 5 for each type of credit. The lower the score, the more negative the impact on mental wellbeing is perceived to be.

We excluded all forms of credit with fewer than 40 respondents as it was felt that this number was necessary to produce a meaningful snapshot of each form of credit.

| Type of credit | Number of respondents | Mental wellbeing score |
|-------------------------|-----------------------|------------------------|
| Payday loans | 145 | 1.88 |
| Unauthorised overdrafts | 124 | 1.89 |
| Doorstep loans | 64 | 2.11 |
| Weekly payment stores | 41 | 2.34 |
| Bank loans | 106 | 2.38 |
| Authorised overdrafts | 228 | 2.53 |
| Credit cards | 340 | 2.60 |
| Catalogue credit | 147 | 2.88 |
| Store cards | 58 | 2.88 |
| Credit unions | 44 | 3.43 |

Payday loans were the form of credit that respondents felt caused the most negative impact on their mental wellbeing. Unauthorised overdrafts also caused a negative impact on mental wellbeing. Other forms of high cost credit, including doorstep loans and weekly payment stores also came out with low scores.

Perhaps surprisingly, catalogue credit came out with better scores than some of the mainstream forms of credit. Catalogue credit, due to its rolling nature, can frequently become part of the weekly budget and may therefore not be seen as a debt that needs to be serviced. Furthermore, participants in our qualitative interviews suggested that the products involved in catalogue credit – clothes and consumer goods – may make people feel good, even if only for a short time.

Credit unions came out very positively, highlighting that they play an important role in offering affordable, fair credit to consumers.

“The debt definitely makes my mental health worries worse.
You worry a lot more – what do I do, do I buy food or pay my debt?”

Case study 1:

Female, 47, West Midlands

"Credit and debt are issues that have been a factor all of my adult life. As a single mother, with sole financial support of the children, loans can be the only way to get by. I knew there were lower interest alternatives out there, but circumstances govern what is available and when the short-term high rate loans are all that's available to you, there can be no choice.

"I've taken out different types of loans in the past, but the payday lenders can be the most ruthless in my experience. Times in debt to payday lenders were the periods I felt most depressed, out of control, and certainly most worried about the knock on the door. It's amazing how quickly a short-term payday loan can spiral to a man standing outside your door saying he's going to take your car away. I've found companies selling on debts is common, and a lack of understanding of who you owe money exacerbates the issue of lack of control of debt.

"It is also totally woven in with my family life - when you have young kids, they always come first, so skipping a meal to provide for them is normal. I think one of the biggest reasons why being in multiple debts impacted so much on my emotional wellbeing and resilience was the lack of control. Despite being a professional for over 25 years I still feel four weeks or a pay cheque away from life being fine, or everything falling off a cliff. Control has never been in my hands. More recently, however, I have been setting up a debt management plan with StepChange, which is really helping me deal with the situation. There are lots of free debt management services now that are really useful, and I would recommend people struggling with debt to look into them."

Case study 2:

Female, 53, Wales

"I am still paying for my past 16 years of history of extreme debt. When I was 37, I went through a divorce, ending an abusive relationship in which my husband had total financial control, and I was in a position where I had no money skills at all, and times were very tough. I was a single parent and carer to many others behind the scenes. My financial situation was difficult for many years as a result of this, ending up in me taking voluntary redundancy due to mounting debt and ill health.

"I became very vulnerable to debt – a key issue for me firstly was never being taught the value of money as a child, and so having to learn it the hard way as an adult. I found the number of credit cards and overdrafts spiralling, as they were easy to get access to, and over time became desperate. I found myself having meetings with people who seemed very nice and understanding about my debt, for example retired bank staff setting up their own debt companies, companies calling my home to set up debt consolidation – all themselves coming with extortionate fees that worsened my crisis. It is a cruel world.

"Along this journey I experienced severe mental and emotional health meltdowns on many occasions as a result, and all the time I never wanted anything myself – the debt was always for helping other people. But I am a very strong and positive motivated woman, and a determined fighter, especially now more than ever."

The impact of debt on social wellbeing

As the majority of people surveyed had used multiple forms of credit over the previous 24 months and had debts that overlapped each other, it is difficult to untangle the impacts of each type of credit on social wellbeing and other behaviours. However, it is clear that, in general, the high cost forms of credit had the biggest impact on mental wellbeing, and mental wellbeing is an important determinant of many of the below behaviours.

To illustrate that high cost credit is likely to have the greatest impact on social wellbeing and behaviours, we have included some additional statistics from individuals who used payday lenders to compare with the average scores. Where numbers of respondents in the categories are too low to provide meaningful comparison, the data hasn't been included.

► Debt stops people connecting with others and forces them to spend more time alone

Nearly three quarters (72%) of people who had used credit in the previous 24 months said they had spent more time alone because they couldn't afford to participate in their normal activities. For individuals who had used at least one payday loan in the last 24 months, this rose to 86%.

Nearly two thirds (65%) of people spent more time alone because they felt too distressed or depressed to spend time with others. This rose to 83% for individuals who had used at least one payday loan in the last 24 months.

As might be expected, individuals who said they had found meeting the repayments on their loan quite or very difficult, scored worse for all outcomes. Nine in 10 said they spent more time alone because they couldn't afford to go out, eight in 10 said they spent more time alone because they felt too depressed to go out.

“ I know my son's going through mental health issues because of his debts, and I know because I've been through the same things, but he won't talk to me about it ”

► Debt causes stigma

Over half of people (56%) with debt felt judged by others, rising to two thirds of people who had used at least one payday loan (69%).

► Debt affects family life

Almost two thirds (65%) of people said that their family life was negatively affected because they felt so distressed or depressed. This rose to four fifths (80%) of people who had used at least one payday loan over the same 24 month period. For individuals who said they had found meeting their repayments quite or very difficult, eight in ten (83%) said family life was negatively affected because they felt so depressed.

“ My marriage was really on a knife edge because of the stress of having to find each monthly payment ”

“ In a nutshell, my marriage broke down because of debt ”

Case study 3:

Male, 50, West Midlands

"I've struggled with all sorts of debt in the past, mostly accumulated on high interest credit cards, but also through payday lenders and sometimes pawnbroker loans. At one point I had a lot riding on a business project I was involved with that went sour, and that was when my debts really started racking up. Then, about five years ago I had to declare myself bankrupt, which cleared most but not all of my debts. I then ended up having to rely on more credit cards, being on job seekers allowance, and really starting to get depressed about everything. My history of being in debt was seriously affecting my job prospects - I was struggling desperately to find work but getting turned down left, right and centre. Many of the jobs I sought out would simply not even accept you at the first stage if you'd ever been bankrupt. I dread to think of how many jobs it's cost me in the long run"

"When I was desperate for rent I went to QuickQuid for a payday loan. I was surprised when they said yes, given everyone else had turned me down - I was even more surprised when the £250 I borrowed went up to £499 in a flash. And of course, all of a sudden I found myself in even more debt, my problems worsened. They should've turned me down, for my own sake."

"It's fair to say my debts were impacting on most parts of my life, as my social life went completely in the pan due to the combination of being so in debt and my depression. As a result unfortunately my drinking went through the roof. I never used to drink alone, but it became a vicious cycle - the drinking was ultimately terrible for me emotionally, making me more depressed about my money problems, but then leading me to put what little money I had towards a scotch rather than towards paying off the debts. The stress it puts on you is unbearable, and I can see why people kill themselves."

"In the last 18 months or so I've been going in the right direction. I've spoken lots to StepChange who have taken so much of the pressures and stress off me. I still get the letters from my creditors, but StepChange have negotiated a consolidated plan for me so now I pay £5 a month as one sum and that's it. In fact, at one point I nearly went with a debt consolidation agency that charged through the roof - they wanted £1200 from me as a kick-off fee before doing anything else - so I'm really glad I was pointed towards the StepChange services."

The impact of debt on behaviour

► Debt leads to increased unhealthy behaviours

Two thirds (67%) of smokers said that the stress and worry associated with their debt caused them to smoke more.

Nearly half (49%) of people who drink alcohol said that they drank more as a result of the stress of having debts. This rose to 62% of people who had used at least one payday loan.

Just under half (47%) of respondents (57% of payday loan users) said they did less exercise because owing money meant that they couldn't afford the costs involved and 65% (80% of payday loan users) said that they were less physically active because they felt too depressed.

Over half (60%) of participants – 70% of payday loan users – said they ate less healthily because they couldn't afford healthy food and two thirds (65%) – 76% of payday loan users – said that feeling depressed led them to eat less healthily while in debt.

Over half (53%) of those surveyed skipped meals and three quarters (76%) said that their sleep quality declined. Both of these rose when looking solely at individuals who had used at least one payday loan over the previous 24 months (67% and 87% respectively).

Seven percent of respondents said that being in debt led them to take illegal substances for the first time or to increase their usage of illegal substances.

All findings were worse for those who said they had struggled to make their repayments. Eighty percent of smokers smoked more; 61% of alcohol drinkers drank more; 81% did less physical activity because they felt too depressed; 92% said their sleep quality decreased and 81% ate less healthily because they felt distressed about their debt.

“ The stress was definitely a problem,
and I smoke more when I'm stressed ”

► Debt results in increased use of medication

Of those participants already taking antidepressants before being in debt (21% of all respondents), two thirds (66%) said that they had to increase their dosage as a result of their debts. This rose to 73% of those who had used a payday loan. Of those who said they had found meeting their repayments quite or very difficult, this increased to 80%.

1 in 10 respondents said that being in debt resulted in them taking antidepressants for the first time.

A third of respondents (36%) said that they used more prescription and over the counter medicines as a result of their debt.

► Debt increases reliance on food banks

Nine percent of respondents said that they had used food banks for the first time as a result of being in debt. Of those who had used food banks before being in debt, nearly half (46%) said that they had used them more often as a result of their debt.

Case study 4:

Male, 33, North East England

"My use of credit services started with just my overdraft, and developed into me getting credit cards before then taking out additional short-term loans, and eventually multiple payday loans. By far the most destructive borrowing for me was through payday lenders. I ended up getting into a debt cycle where I was having to borrow every month from one lender to pay back another and I was being crippled by the interest. At one point I had five loans out with one payday loan provider, another with one provider, another with a different provider, two more with further providers, three credit cards, an overdraft and two loans. All of this has meant I got into a downward spiral that I could not afford to get out of and I am now only just beginning to see the end of the tunnel.

"At its worst, these debts were seriously damaging to my mental and physical wellbeing. I was panicking about defaulting on all my credit accounts and whether or not someone would turn up at my door to take what I did not have. I had a lot of trouble sleeping and was using alcohol to act as an emotional crutch to help me sleep and stop me worrying. As a result of where debt led me, at times I stopped eating properly, was drinking excessively, and smoking too much.

"At one of my lowest points, when I was on the verge of suicide, I called National Debtline and I was terrified and ashamed to do it – but they were brilliant. They genuinely offered non-judgemental advice with sympathy and understanding that gave me a reassuring and practical way of moving forward with my debt.

"Based on my experiences, I really think it should be made more difficult to access high cost credit for some people. I think more needs to be done to highlight the alternatives such as credit unions and other low cost options, which people might not be aware of but are often much fairer and more appropriate."

Case study 5:

Male, 46, Scotland

"The most difficult times for me with money and debt was in the aftermath of a period in which I'd run into large financial problems, having run up debts on multiple credit cards, and had to take bankruptcy. I was effectively homeless for a while, then placed in a temporary flat by the council, and was in desperate need of some money short term. By this time I was already struggling with my mental health, and at no point did I get any advice from anyone on who could help me with my debts. I went with Provident, a door step loans provider, because they were the only ones who'd give me any money. I was very shocked that they would lend money to someone like me on benefits, effectively homeless, on anti-depressants and being treated for anxiety and psychotic episodes. I didn't ask questions then, but I think they definitely should've enquired a bit more.

"Struggling with my debts really has had a big effect on my behaviours and all parts of my life. In certain periods I drank and smoked a lot more, took to other drugs more than I had before; and on the flip side was eating less healthily, and sleeping and exercising less.

"From my experience, I think one of the big challenges in dealing with debt is getting good advice communicated to the people who need it. I used to work in financial services myself, but when things went bad for me and it felt like my life had been pulled out from under my feet, I had no idea who best to turn to for help with my debts. There were so many stages in my story where people could've intervened and told me about different alternatives, or charities and advice organisations that existed, but it never happened."

The impact of debt on the wider determinants of health

► Debt impacts on housing, employment, education and access to healthcare

Nearly a third (30%) of respondents said that their housing situation had been negatively affected by their debts, rising to 43% of those who had used a payday loan and 44% of those who said they struggled to make their repayments.

“ At my lowest point, I went bankrupt and lost my house ”

A third (34%) said that their employment situation had been negatively affected by their debts, rising to 47% of those who had used a payday loan.

Of those who had undertaken education or training, over a third (39%) said the experience had been negatively affected by their debts. This was increased to 46% of those who had used a payday loan in the previous 24 months.

Over a quarter (29%) of respondents said that their debts had made it harder for them to access the healthcare that they needed, due to being unable to take time off work or afford transport to get to appointments. This increased to 32% of those who had used a payday loan and 41% of those who said they had struggled to make their repayments.



Policy recommendations

Our survey findings have clearly highlighted that problem debt can have a negative impact on health. The following recommendations seek to suggest ways by which these impacts might be mitigated and follow from discussions had during our qualitative research with individuals affected by debt.

✓ For all stakeholders to work together to promote affordable credit options and reduce the cost of current forms of high cost credit

Problem debt is bad for health, and high cost credit leaves people more likely to end up with problem debt. These effects are clustered around the most vulnerable who have the fewest credit options and the most need of affordable credit. It is therefore vital for high cost credit to be tackled in the UK. As well as increased regulation around marketing and caps on charges, there needs to be greater investment in alternative, affordable forms of credit. Credit unions play a role in offering affordable credit, but their reach is limited. Other organisations, such as Fair for You, an affordable weekly payment store, and Moneyline, which provides affordable short term loans to those on lowest incomes, are working in this space to offer alternatives. However, more needs to be done and the End High Cost Credit Alliance, along with other organisations, need to continue to consider all options to ensure that affordable and fair credit is available to all.

✓ Lenders should ensure that mental health training is provided to employees and that they carry out mental health assessments before providing credit

Under the Mental Capacity Act, creditors are compelled to consider whether someone is capable of understanding the credit agreement they are entering into and of making the decision to take the credit.⁵⁵ Guidance from the Office of Fair Trading (OFT) highlights that mental illness may impact upon mental capacity.⁵⁶ Despite this, mental health is still not being routinely discussed by lenders – none of the individuals in our focus groups had ever been asked questions about their mental health, despite some saying that they were unwell at the time they made their application and didn't think they should have been granted the credit. This is further backed up by research from MIND which showed very few borrowers are being asked about their mental health at the time of borrowing.⁵⁷ While having mental health problems should not preclude individuals from receiving credit, a full understanding of their situation is required to ensure that the correct decision is made.

“ When you go to see the lenders, they should ask at the start: have you got depression? ”

Having conversations about mental health, whether before credit is granted or afterwards, is not easy and can be uncomfortable for lenders. Therefore it is vital that employees are trained so that they can be sensitive, understanding, ask the right questions and make the right decisions about how to proceed. The acronym BRUCE (behaviour and talk; remembering; understanding; communication; and evaluation) has been developed to support frontline staff when they are assessing the capacity of customers.⁵⁸

“ I was getting psychiatric help and was still borrowing – they don't want to know about your health. I was still taking anything that was offered to me, taking credit cards left, right and centre ”

✓ The FCA and ASA to prevent marketing of credit products to vulnerable individuals

“ I finished paying Brighthouse off about 4 or 5 weeks ago, and they're still badgering me about this. They're still sending me text messages offering me new deals ”

Financial Conduct Authority (FCA) advertising rules focus on whether adverts are ‘clear, fair and not misleading’.⁵⁹ Despite the FCA stating that the behaviour of firms should give due regard to the interests of customers (and that this includes not targeting customers with credit offers that are unsuitable for them by virtue of their indebtedness, poor credit history or health),⁶⁰ our qualitative research suggests this is not happening. Individuals coming to the end of their repayment plans stated that they start to be bombarded with text and email messages encouraging them to take out more credit, often with incentives.

“ One catalogue lender keeps following me up – even though I've paid my debts off – telling me about other offers and trying to hook me in again ”

We call on the FCA and the Advertising Standards Agency (ASA) to prevent lenders from sending direct marketing for further loans to individuals who have struggled to make repayments on their current loans (i.e. have fallen into arrears or have spoken to the lender about their difficulties) and also to individuals who have been identified as experiencing mental health difficulties, either when the initial loan was granted or during the process of repayment. We would argue that marketing in this way constitutes an irresponsible lending practice.⁶¹

We also call for the FCA and ASA to re-examine whether there should be limits and restrictions on credit advertising in broadcast, print and internet formats to ensure that vulnerable individuals are not being targeted.

✓ Better signposting to debt advice and health service provisions by lenders, health services, local authorities and universities

There needs to be greater awareness of the organisations that can help individuals when they are experiencing problem debt. Lenders have a key role to play as they are having direct communication with consumers and are well placed to direct them to appropriate services. We would call for signposting to be available at the point that credit is granted on lender agreements before it becomes problem debt as well as throughout the process of repaying the debt.

This should be provided in multiple forms – over the phone, through text messages, email and in the post – to ensure that individuals receive the information.

There also needs to be better signposting by health services, social care, housing authorities, universities and employers to ensure that individuals do not fall through the net. This would also be improved by better co-ordination between debt advice and other services, for example having debt advisors in GPs surgeries, libraries and job centres.

One of the key aims of ensuring people are signposted to services would be to make them aware that they have choice. Our qualitative research highlighted how many individuals feel forced to use expensive debt consolidation services because they are not aware of the other options available.

✓ **The Government to fully support financial literacy in the national curriculum by providing funding to schools**

In September 2014, financial literacy was added to the citizenship national curriculum for 11-16-year-olds and maths for 5-14-year-olds in England. It had already been part of the Welsh,⁶² Scottish,⁶³ and Northern Irish curricula⁶⁴ for several years. However, there remains further work to do in this area. Firstly, only 'maintained' schools must follow the curriculum which means that many pupils in free schools or academies will not receive financial education.

In England there also remains little financial support from the government for training teachers and providing resources. A privately funded textbook will be available for schools from September,⁶⁵ but government still needs to step up and ensure that financial education is prioritised and its importance fully appreciated. A recent report from the charity Young Money found in its interviews with teachers that there was a lack of awareness from young people about debt management and a greater need for more information and guidance from schools.

“ *If I'd have known in school what I know now, I don't think we'd have gotten into the trouble we got into* ”

Our research highlights the need for young people to understand the differences between types of credit, the health consequences of problem debt and also who they can talk to if they need support with debts. There also remains stigma around being in debt and it is vital that children and young people are encouraged to talk about it.

✓ **FCA to regulate that health warnings be included in credit agreements and marketing of credit products shown to have the most negative impact on health**

This report highlights that some forms of credit have a negative impact on health. We believe that consumers should be made aware of the potential effects of these types of credit, in the same way that payday loans are required to have a risk warning about their potential financial impact.⁶⁷

We carried out a poll of the UK public* which found that two thirds would be in favour of such a warning on types of credit shown to be bad for health.

While many users of high cost credit are driven by need rather than lack of knowledge, this would form an important part of a much bigger set of solutions to ensure that individuals do not experience problem debt.

Below are some possible examples:



*Populus poll, 14th-15th March 2018. Representative sample of 2000 members of the UK public

Conclusions

Credit, and the debt resulting from it, have long been viewed through a moral lens. Dante, Shakespeare, Dickens and Balzac all have the same depictions of lenders as “*pale, spiteful and greedy*”.⁶⁸ During Victorian times, judgement started to be placed on borrowers, with the consensus that “people taking out loans and getting into debt was a product either of an individual’s succumbing to vice, or worse, the inability to handle themselves financially”.⁶⁹

This report argues that there remains a moral lens through which debt must be viewed, but not those depicted through history. Today, we have an ethical imperative to ensure that credit practices do not discriminate against the poorest in society. It is unjust that there is health inequality in society, and that high cost credit further exacerbates it.

Credit is necessary and useful in many situations, and when provided fairly and affordably, this can have positive outcomes for the borrower. The challenge therefore is to ensure that everyone has access to the most affordable forms of credit possible, whilst recognising that in some situations even the most affordable loan may not be appropriate for everyone all of the time.

We call on policy makers, government bodies and all those offering financial products to the public to ensure that credit practices are developed with the needs of the public in mind – and not just their financial needs; health and wellbeing must be a key priority in all financial decision making.



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