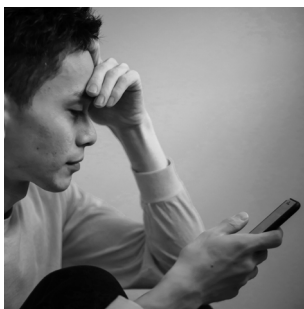


# SWIMMING WITH SHARKS

Tackling illegal money lending in England

March 2022



Swimming With Sharks: Tackling illegal money lending in England  
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Published by the Centre for Social Justice,  
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# About the Centre for Social Justice

Established in 2004, the Centre for Social Justice is an independent think-tank that studies the root causes of Britain's social problems and addresses them by recommending practical, workable policy interventions. The CSJ's vision is to give people in the UK who are experiencing the worst multiple disadvantages and injustice every possible opportunity to reach their full potential.

The majority of the CSJ's work is organised around five 'pathways to poverty', first identified in our ground-breaking 2007 report *Breakthrough Britain*. These are: educational failure; family breakdown; economic dependency and worklessness; addiction to drugs and alcohol; and severe personal debt.

Since its inception, the CSJ has changed the landscape of our political discourse by putting social justice at the heart of British politics. This has led to a transformation in government thinking and policy. For instance, in March 2013, the CSJ report *It Happens Here* shone a light on the horrific reality of human trafficking and modern slavery in the UK. As a direct result of this report, the Government passed the Modern Slavery Act 2015, one of the first pieces of legislation in the world to address slavery and trafficking in the 21st century.

Our research is informed by experts including prominent academics, practitioners and policymakers. We also draw upon our CSJ Alliance, a unique group of charities, social enterprises and other grass-roots organisations that have a proven track-record of reversing social breakdown across the UK. The social challenges facing Britain remain serious. In 2022 and beyond, we will continue to advance the cause of social justice so that more people can continue to fulfil their potential.



# Acknowledgements

The CSJ would like to extend our thanks to the many individuals and organisations who shared their time, expertise, evidence and feedback in the preparation of this report. This includes (but is by no means limited to): The Illegal Money Lending Teams, the victims of illegal money lending who agreed to be interviewed by us, HM Treasury and Financial Conduct Authority, the Money and Pensions Service, the Association of British Credit Unions, Responsible Finance, Christians Against Poverty, as well as other housing associations, debt advisers, credit unions, CDFIs, and all other stakeholders who engaged with us and responded to our call for evidence. We are grateful to the sponsors of this report.

We are grateful to the supporters of the CSJ Debt Policy Unit:



Disclaimer: the views and recommendations in this report are those of the CSJ and do not necessarily represent those of the individuals or organisations mentioned above.

# Executive summary

## Illegal money lending is ruining lives

Britain is a nation of money secrets. Two in five of us confessed in a recent survey to concealing a financial product from a loved one, such as a credit card or loan.<sup>1</sup> But despite how ubiquitous it is to disguise our financial situation, some hidden debts are worse than others.

In England today, we estimate that as many as 1.08 million people could be borrowing from an illegal money lender – more commonly known as a loan shark.<sup>2</sup> This is over 700,000 more people than the most recent official estimate.<sup>3</sup>

Illegal lending exists in many forms, from small-scale lenders who pester their victims into repayment to violent predators and organised crime groups. Some lenders even attempt to add a thin veil of legitimacy to their illegal lending by advertising themselves as a company, drawing up fake contracts, and independently lending to vulnerable clients while working for a separate, legitimate company.

Yet the practices used by illegal lenders are changing. New evidence presented in this report shows illegal lenders to be increasingly operating online, using the rapidly evolving social media landscape to entice and exploit new victims. This allows them to intimidate their victims 24 hours a day. In the course of this research, we have heard countless examples of loan sharks terrorising victims through a steady stream of threatening messages and pictures – often in ‘disappearing’ sharing apps. Now, more than ever, victims are exposed to the relentless manipulation of their exploiters.

Using an unpublished dataset of over 1,200 victims, we have carried out the first analysis of its kind to understand the picture of loan shark victims today. What emerges in the data of known victims is that anyone can be exploited by an illegal money lender, but most victims face a range of interwoven disadvantages. Low incomes and financial resilience, reliance on benefits, social or private rented housing, poor health and existing debt to authorised creditors make the lives of some victims incredibly complex. Yet other victims are homeowners, often with middling incomes, and this type of borrower is believed to typically face business expenses or cash flow problems.

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1 Money and Pensions Service, *21 million money secrets kept from loved ones across the UK*, 2020

2 For methodology, see below Chapter Two, pp. 15–16

3 Department for Business, Innovation, and Skills, *Interim Evaluation of the National Illegal Money Lending Projects*, 2010. We compare methodological approaches in Box 1, p. 15.

Table 1. Victims of illegal money lending experience multiple deprivation

62 per cent have an income below £20,000
66 per cent owe money to a legal creditor
48 per cent live in social housing
65 per cent have a long-term health condition

Source: CSJ analysis of Illegal Money Lending Team England 2021 victim cohort data

The consequences of borrowing from an illegal lender can be severe. The cost of repayment is often both arbitrary and extortionate where terms such as ‘double bubble’, where victims pay twice what they have borrowed, are used to extract large sums. In others, late fees and purposeful obfuscation can lead to spiralling costs and payments are made long after the initial loan has been repaid.

When victims can’t pay, ‘payment in kind’ can be demanded. We have been alarmed by numerous cases we have seen in which illegal lenders have demanded a borrower support their ‘business’ by delivering drugs or referring new clients to them. In others, sexual favours have been demanded, with one lender even writing the expectation of sexual services into a borrower’s ‘contract’.

These practices can last for years. Our analysis shows that just over a fifth of victims find themselves repaying an illegal lender for over five years, seven per cent of whom have been repaying their lender for over 10 years.

We can expect this to get worse. The emergent cost-of-living crisis casts a looming shadow of financial anxiety. Polling conducted by Opinium for the CSJ suggests that almost 17 million people – that is, almost a third of the UK adult population – say that they are very worried about the cost of living crisis, rising to 42 per cent of those on the lowest incomes. The combination of pressures on household budgets, low financial resilience and increasingly limited credit options is liable to create a perfect storm in which people are driven towards exploitation.

Table 2. Victims borrow from loan sharks as a last resort after trying other sources

80 per cent of victims who attempted to borrow from legal sources first are refused
44 per cent of victims who try to borrow try a bank
27 per cent of victims who try to borrow try a high-cost-short-term credit provider

Source: CSJ analysis of Illegal Money Lending Team data

Given this context, the continued scale of the problem and its ruinous impact on the lives of the most disadvantaged people in society, the CSJ believes that we must urgently renew the fight against illegal money lending.

## Renewing the fight against loan sharks

The fight against illegal money lending takes shape in different ways. And the Government has made repeated and welcome commitments to addressing the economic crime plaguing communities across the nation – including illegal money lending.

In the course of this research, we have consulted widely and across a vast range of sectors to inform both cost-effective and stress-tested proposals that will renew our collective efforts to end this deeply harmful crime. There are 24 recommendations in the report, but these may be summarised as follows.

### Clamping down on illegal money lending

- **Scaling up the Illegal Money Lending Team England**

The Government must ensure that the Illegal Money Lending Team England is able to respond more intensively to the ongoing appearance of loan sharks preying on disadvantaged people in our communities. The Illegal Money Lending Team has shown it can deliver results on a limited budget. In light of the cost-of-living crisis, the Government should release additional resources to scale up the team's operations. We estimate that raising the team's budget by just £7 million could see an estimated £10 million saved for victims, an additional 3,400 victims protected and an additional 58 arrests made per year. The annual cost to society of illegal money lending has been estimated to be more than £0.5 billion.<sup>4</sup>

- **Deterring loan sharks through proportionate sentencing**

The Government should amend the Financial Services and Markets Act 2000 to increase the tariff for the most heinous cases of illegal lending and achieve parity with fraud. New sentencing guidelines should be issued to allow judges to interpret the relevant guidelines in line with the crime that is committed.

- **Addressing the new frontier for illegal lending: social media**

The Government should use the Online Harms Bill to ensure social media platforms are responsible for detecting and banning illegal lending from their platforms.

### Protecting the most vulnerable

- **Bringing hidden debt to the surface**

The Government should launch a national advertising campaign to highlight the presence and dangers of loan sharks, as well as the support available from the Illegal Money Lending Team.

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<sup>4</sup> Department for Business, Innovation, and Skills, *Interim Evaluation of the National Illegal Money Lending Projects*, 2010. Estimate updated by inflation.



- **Equipping debt advisers with the tools to broach the issue**

Debts to illegal money lenders should be added to the Standard Financial Statement and new training and guidance issued to debt advisers by the Money and Pensions Service.

The Money and Pensions Service should commit to protecting face to face debt advice for the most vulnerable while driving technological efficiency via the use of open banking.

- **Increasing the touch points with hidden debt**

The analysis of victims presented in this report shows the extent to which they are likely to come into contact with a range of services. Local councils should commit to the 2030 challenge to improve levels of training; JobCentre Plus work coaches should receive updated training on spotting hidden debt; and housing associations should be supported with best practice materials in how to stamp out illegal lending affecting their residents.

### Providing the alternative

- **Building financial resilience**

The Help to Save scheme represents a key opportunity to support those on low incomes to save and build a financial cushion against unexpected costs. Yet the latest data shows uptake to be at just eight per cent of those estimated to be eligible upon launch. HM Treasury should promote the uptake of Help to Save and review the generosity of the scheme in light of the likely underspend accrued through several years of under-utilisation.

The No Interest Loans Scheme is welcome and should be supported with additional investment, although recipients should be connected with credit unions, charities and the Help to Save scheme in order to support them to achieve greater financial resilience.

- **Revolutionising credit unions**

Credit unions ought to be fit for the 2020s, but currently they are overburdened with outdated regulation created in 1979. We envision bigger, bolder credit unions that are able to attract support from across the income spectrum and offer low-cost financial products to those who need them.

The Government must rewrite the Credit Union Act 1979 to promote a growth focused environment and allow credit unions to offer a wide range of products. It must promote strategic mergers by launching a new Credit Union Mergers Fund and turbo-charge the transition to digital technology. Finally, we believe that more work must be done to create a proportionate regulatory environment by re-shaping the common bond moving to maximum membership restrictions, and reviewing capital requirements.

# Introduction

Problem debt ruins lives. Unmanageable debt places immense stress on individuals and families, damaging their relationships, eroding their physical and mental wellbeing, and is often closely connected to other problems plaguing their lives.<sup>5</sup> Indeed, money worries are everywhere. According to the Money and Pensions Service, just over one in three (36 per cent) people say thinking about their financial situation makes them feel worried.<sup>6</sup>

Yet these are just the debts that we know about. Previous work by the Centre for Social Justice has shown that many debts are more elusive than those owed to consumer credit providers or, as has been increasingly recognised, to public bodies.<sup>7</sup> These so-called 'hidden debts' carry a unique danger for people who are unwilling to disclose their existence out of shame, fear or by failing to recognise them as debt at all.<sup>8</sup> And yet, hiding debts in Britain is common: we are a nation of money secrets.

That is why the CSJ launched its Hidden Debt programme to unveil the nature, scale, and impact of hidden debt in the UK today.

This report is the first in a series of reports in the programme. Here, we investigate what we consider to be the most pernicious form of hidden debt: illegal money lending. We examine the forms illegal lending takes, the people it affects, and the consequences it bears. But we also propose a series of ambitious but credible reforms that ensure fewer people in the future have to endure the tyranny of illegal lenders.

The report is structured as follows:

- Part One explores the prevalence of hidden financial products in the UK before exploring the forms and consequences of illegal money lending in England.
- Part Two uses data from the Illegal Money Lending Team England and the CSJ's own analysis of a sample of 1,252 victims of illegal lenders to chart out the multiple layers of deprivation that burden victims and uncover the experiences they face.
- Finally, Part Three of the paper sets out how we propose to tackle illegal money lending. We propose bold, practical, recommendations to clamp down on illegal lenders, protect the vulnerable, and provide the alternative to illegal lenders.

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5 Citizens Advice, *A Debt Effect?: How is unmanageable debt related to other problems in people's lives?*, 2016, p. 15; Elina Turunen, Heikki Hiilamo, *Health effects of indebtedness: a systematic review*, *BMC Public Health* 14:489, 2014

6 Money and Pensions Service, *24 million UK adults don't feel confident managing their money. Talk Money Week is here to help*, 2021

7 Centre for Social Justice, *Collecting Dust: A path forward for government debt collection*, 2020

8 Centre for Social Justice, *Uncovering Hidden Debt: Focus groups with money advisers about illegal and informal money lending*, 2021, pp. 4, 10

part one

# Hidden debt: Illegal money lending in England



## chapter one

# A nation of money secrets

### 1.1 Money secrets

Money is a daily concern for nine million UK adults, and nearly half the adult population say that they have worried about money once a week or more in the last month.<sup>9</sup> Despite this, we rarely speak up.

It is well known that Brits do not enjoy talking about their financial situation, be it positive or negative. A study of 2,000 adults found that one in five of us don't think it is appropriate to disclose their salary in social settings and over half think that the subject of money ought to be completely off limits at work.<sup>10</sup>

But these beliefs are not solely contained to the workplace and social settings. Millions of us are hiding the truth about our financial position from our friends and loved ones. According to the Money and Pensions Service, 40 per cent of adults in the UK admit to keeping secrets, with hidden credit cards, undisclosed personal loans, and secret savings accounts amongst the most common.

In an extensive survey of 5,200 people, over 1 in 3 people who reported hiding a money product said that they were hiding a credit card.<sup>11</sup> But this isn't all. Many of us are hiding significant commitments, with 23 per cent of people who reported hiding a money product citing an undisclosed personal loan while 18 per cent reported a hidden overdraft, and over 1 in ten keep quiet about a pay-day loan.<sup>12</sup>

But the prevalence and frequency of our financial secrets are uneven. Those aged 25–34 years old are the most likely to say that they have a hidden financial product. Almost three in five (59 per cent) of this group say that they have a hidden product, 19 percentage points higher than the national figure, while their younger (18–24 year old) and elder (35–44 year old) peers are less likely to admit to hidden products at 44 per cent and 49 per cent respectively.

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9 Money and Pensions Service, 'Shame, upbringing and burdening others'

10 The i, 'Brits would rather talk about their weight, mental health and family dramas than money'

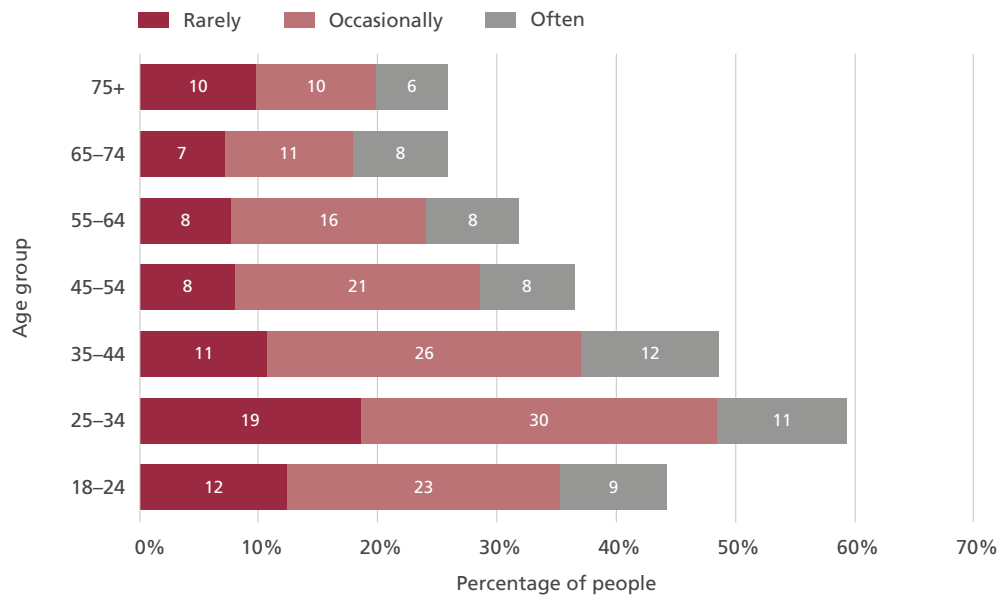
11 Money and Pensions Service, *21 million money secrets kept from loved ones across the UK*

12 Data provided by the Money and Pensions Service.

Geographically and financially, we are also unequal. Londoners are the most likely to say that they keep financial products secret, with 55 per cent of people living in the capital saying that they have kept a financial product secret from their friends or family. Indeed, it is only the East Midlands and London that report above the 40 per cent national figure.<sup>13</sup>

Financially, the picture that emerges is complicated. Those living in households earning £60,001–£80,000 (pre-tax) were the most likely to report hiding financial products. Half of the people in this financial bracket report keeping a product secret compared to just 37 per cent of their lower-income peers in households with less than £20,000 a year. Indeed, it was this group, the lowest income group, that reported the least number of people keeping secrets.

Figure 1. Percentage of adults who keep financial products secret by frequency and age

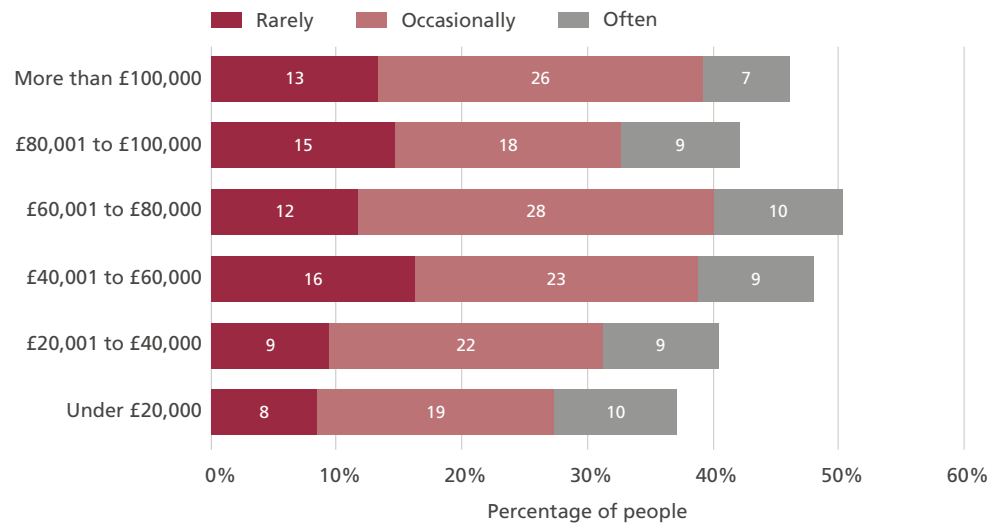


Source: Money and Pensions Service<sup>14</sup>

13 Ibid

14 Ibid

Figure 2. Percentage of adults who keep financial products secret by pre-tax household income



Source: Money and Pensions Service

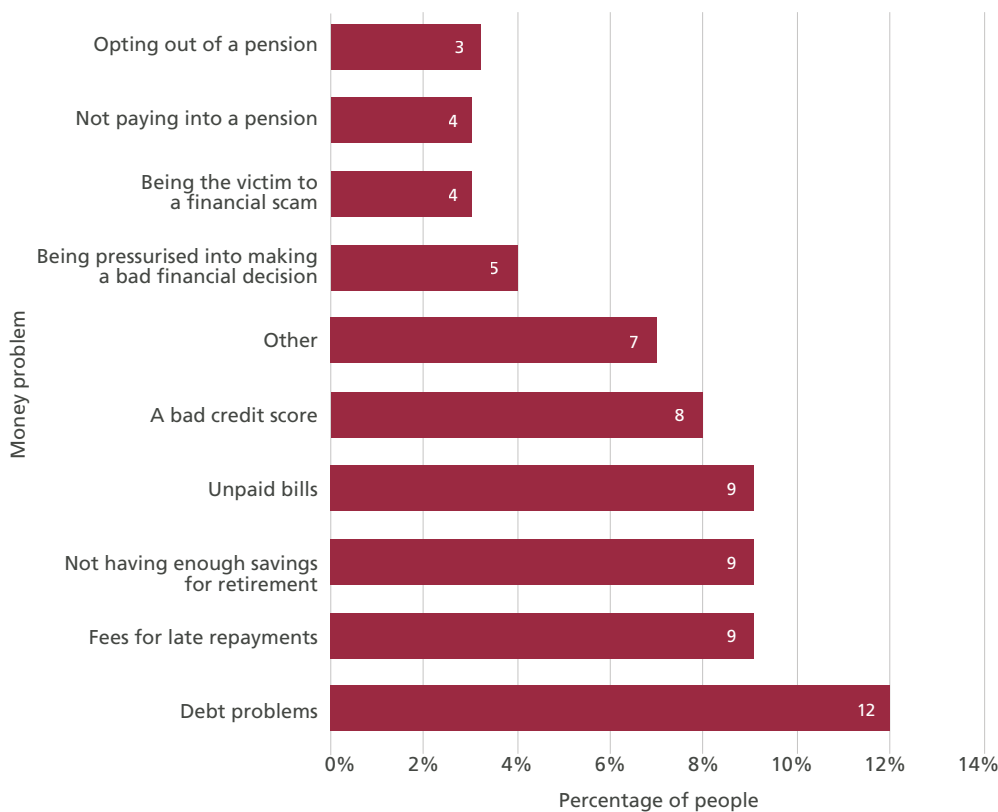
So, what is it that we are hiding? The most common types of products that people who say they have hidden a product report hiding are credit cards, personal loans, and savings accounts, with overdrafts and payday loans following on.

Those on the lowest incomes were more likely to report hiding a savings account or an everyday bank account, being the most likely income group to do so. Of those who hid products, 23 per cent of households with a pre-tax income of less than £20,000 reported hiding a savings account and 17 per cent of the same households reported hiding an everyday bank account. Yet it is higher income households who keep secrets that are most likely to report hiding financial obligations, such as a credit card, personal loan, overdraft and payday loan. Part of this will be reflected in the fact that these products are not always available to those on an income under £20,000.

We also know that our unwillingness to talk about our finances seeps beyond just our products and into our money problems and worries. Almost 2 in 5 of us report some kind of money problem that we have kept secret from our loved ones, with debt problems the highest on the list. Worryingly, over 10 per cent of us are struggling with debt, yet suffer in silence.<sup>15</sup>

<sup>15</sup> *Ibid*

Figure 3. Reported money problems that have been kept secret



Source: Money and Pensions Service

These are just money problems that have been investigated, and hidden debts are, by their nature, notoriously difficult to identify and discuss. So why don't people speak out? Recent investigations suggest that shame is a powerful factor. The Money and Pensions Service found that 18 per cent of adults said that shame or embarrassment was the reason they avoid talking about their money situation,<sup>16</sup> and debt management firm Lowell found that this rises to 69 per cent for people who are in debt.<sup>17</sup> Other reasons people report avoiding discussing their financial situation include 'not wanting to burden others', the fact that talking about debt is not how they were raised, and the discussion of debt causing stress and anxiety.<sup>18</sup>

All of these factors coalesce to create a shroud of darkness over Britons' financial situation. The extent to which people feel able to seek help from others about their financial situation in response to evolving needs adds another layer of complexity that is difficult to penetrate. Finding themselves unable to speak out, many are left worried by their debts and vulnerable to financial predators. One such predator, arguably the most pernicious, is the illegal money lender – more commonly known as the loan shark.

16 Money and Pensions Service, Shame, upbringing and burdening others: why 29 million UK adults don't feel comfortable talking about money despite feeling worried about it

17 Lowell, Hidden Debt – why we don't talk about our debt problems

18 *Ibid*

## chapter two

# Illegal money lending: It happens here

### 2.1 What is illegal money lending?

Put simply, illegal money lending is conducting a consumer credit business without permission and a licence from the Financial Conduct Authority – a breach of Part 4A of the Financial Services and Markets Act 2000. Conducting a consumer credit business is a regulated activity under article 60B of the Financial Services Act (Regulated Activities) Order 2001 and a failure to acquire a licence constitutes an authorisation offence.<sup>19</sup> This therefore refers only to credit providers who do not possess a licence, not legitimate credit providers, such as banks, credit unions, and high-cost credit providers, all of whom are regulated. Later we will explore how it takes place.

### 2.2 How many people are in debt to an illegal lender?

We estimate that there could be as many as 1.08 million people borrowing from an illegal money lender – more commonly known as a loan shark.<sup>20</sup> This is over 700,000 more individuals than those identified in the last official study.<sup>21</sup> In the box below, we explore the inherent limitations to producing a high-confidence estimate of the scale of this elusive crime.

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19 Legislation.gov.uk, *The Financial Services and Markets Act 2000 (Regulated Activities) (Amendment) (No.2) Order 2013*; Legislation.gov.uk, *Bank of England and Financial Services Act 2016*

20 The CSJ commissioned a representative poll of 4,002 UK adults carried out by Opinium between 30 November and 3 December 2021. The poll showed that 2.4 per cent of people in England said they were 'currently borrowing' from 'someone locally who charged [them] interest (excluding legitimate lenders such as banks, authorised doorstep lenders, payday lenders, and credit unions).' Extrapolating the total number of people who said they are currently borrowing from this source (using the 18–105+ population of England in 2021 according to the ONS Population Projections) suggests that 1,079,026 people could be borrowing from an illegal lender.

21 Department for Business, Innovation, and Skills, *Interim Evaluation of the National Illegal Money Lending Projects*, 2010



### Box 1. A note on methodology

It is notoriously difficult to identify the extent to which illegal money lending is taking place, as it is a crime shrouded in secrecy.

The most recent official research into illegal lending was produced by the Financial Conduct Authority in 2017, although this did not provide a numerical estimate around scale noting that ‘because the practice is so hidden, it has been difficult to establish hard evidence of the number of consumers involved in unauthorised lending’. However, the FCA’s *Financial Lives Survey 2020* identified some 200,000 people reporting the use of ‘unlicensed money lenders’.<sup>22</sup> The most commonly cited text today remains the Policis report published by the Department for Business, Innovation and Skills in 2010, which found there to be 310,000 individuals indebted to an illegal lender at the end of the last Labour Government.<sup>23</sup>

There is notable methodological variation in the existing literature – for example, some have focused on the whole population; others have focused on low-income groups using saturation samples in areas of pronounced deprivation to inform estimates.

Indeed, there are further methodological challenges in producing this number. Gauging the extent of this crime is immediately challenging due to a lack of widespread understanding of what constitutes illegal lending, the blurred lines between informal lending exempt from regulation and exploitative activity, and an unwillingness from victims to speak up (or indeed to know they are victims in the first place). We have seen repeatedly in our own research that victims – even of loan sharks placed under arrest for their activities – do not realise a lender is acting illegally, continue repaying ostensibly by choice, or say that ‘nothing’ would help them to speak up (see below p. 70). Surveys that have asked respondents to comment on whether they have used an ‘illegal lender’, ‘unlicensed money lender’ or ‘loan shark’ may therefore provide only a conservative estimate of the true number of those borrowing, many of whom simply feel they are turning to a friend.

Given the need to provide an updated estimate of the scale of the issues – and in light of these methodological challenges – the CSJ set out to develop an experimental approach informed by the qualitative evidence we had taken from both the Illegal Money Lending Team and victims of illegal lending themselves.

To address the ‘knowledge gap’ issue, we designed a survey which couched the activity of an illegal lender in more descriptive language with the intention of capturing a more accurate range of victims. We commissioned a poll of 4,000 UK adults with the research agency Opinium in order to gather the data, who asked respondents, ‘Have you borrowed from someone in your local area who charged you interest (this excludes legitimate lenders such as banks, authorised doorstep lenders, payday lenders, and credit unions)’.

While recognising the inherent limitations that restrict high confidence estimates in this area of enquiry, we believe this approach surpasses previous attempts to identify the prevalence of illegal lending. However, we hope this contribution to the evidence base will prompt further efforts into developing an official, agreed methodology.

22 The survey asks: ‘Which, if any, of the following types of loan do you hold currently, or have you held in the last 12 months but not currently? Include loans either in your own name or in joint names (but not where you are only a guarantor on someone else’s loan)? Loan from an unlicensed money lender or another informal lender. This is where someone lends money on a commercial basis, but without being authorised by the Financial Conduct Authority.’

23 Department for Business, Innovation, and Skills, *Interim Evaluation of the National Illegal Money Lending Projects*, 2010

**Recommendation 1: The Financial Conduct Authority should develop a cutting-edge approach to estimating the scale of illegal money lending.**

The FCA's *Financial Lives Survey* provides an invaluable insight into the financial context for millions of people across the UK. However, it remains the case that complex challenges persist in producing an up-to-date estimate of the scale of illegal money lending. In part this owes to the fact that many victims, as we have observed repeatedly during this research, do not understand that they are borrowing from likely illegitimate sources of credit. Given the regularity and high quality of the Financial Lives Survey, the FCA has the potential to lead the way in providing the most rigorous and current data on this highly elusive phenomenon. It should consult with the relevant organisations including the Illegal Money Lending Team as well as specialist research agencies to develop the basis for a new regular estimate to be launched in 2023.

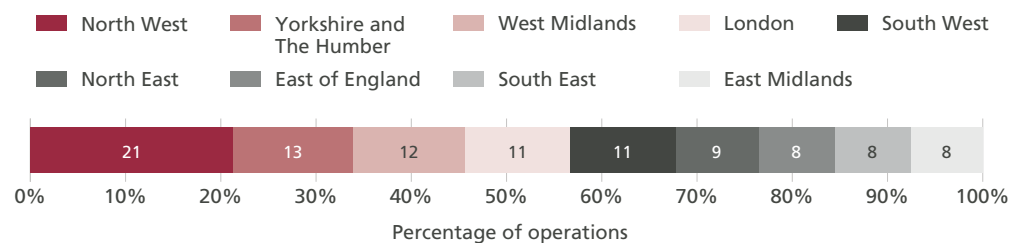
### 2.3 Where is illegal lending taking place?

Nowhere in the UK is safe from loan sharks. Every year, reports of illegal lending activity occupy the column inches of local newspapers, telling the stories of those who have been exploited by insidious lenders who offer cash quickly with high interest rates and no paperwork. For the first time, the Centre for Social Justice is able to unveil where England's authorities have launched operations against illegal money lenders.

In the last six years, the Illegal Money Lending Team England have undertaken 263 operations and arrested 327 loan sharks, seizing ill-gotten gains, including hundreds of thousands of pounds. As Figure 4 below shows, these operations have taken place across the country. However, some regions and areas have seen more operations than others.

The greatest number of operations have taken place in the North West, owing to a large concentration of cases in Manchester, Lancashire, and the Merseyside area. Fewer operations have been launched in the East Midlands where cases have predominantly been found in Derbyshire and Nottinghamshire.<sup>24</sup>

Figure 4. Proportion of operations launched by the Illegal Money Lending Team England by region

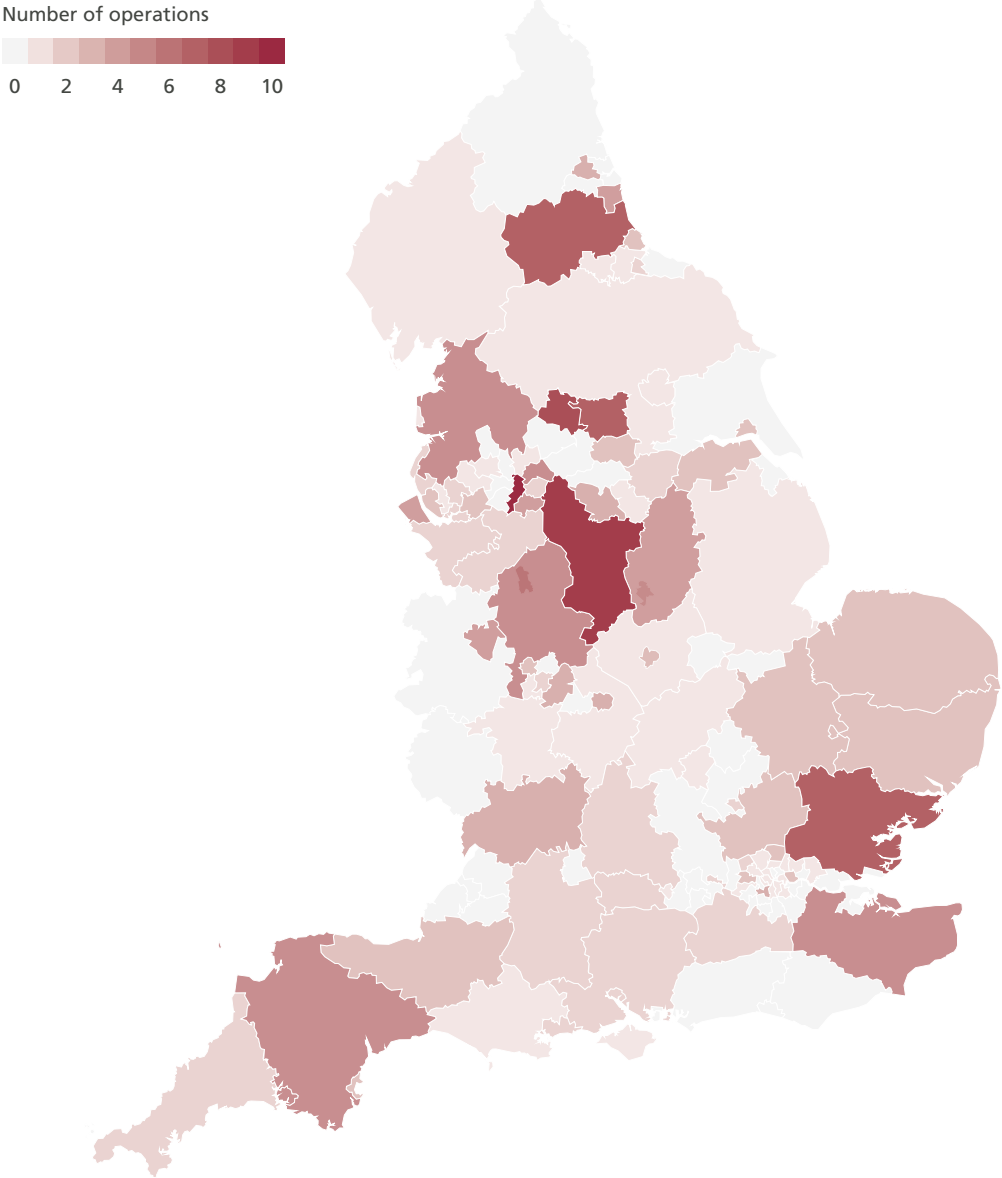


Source: CSJ Analysis of data collected by the Illegal Money Lending Team

<sup>24</sup> Data acquired from the Illegal Money Lending Team England.

As the table below shows, some local areas appear to be more affected than others. A number of deprived places are recognizable in the table below, including Manchester, Bradford, County Durham, Plymouth, and Sunderland. London, too, contains a considerable degree of activity, with illegal lenders often operating across borough lines. While no single borough is found in the top ten areas, the capital does make up 11 per cent of activity by the illegal money lending team – above 5 other regions in England.

Figure 5. Heatmap of operations by the Illegal Money Lending Team England, 2015–2021



Source: CSJ analysis of Illegal Money Lending Team data

Table 3. Top 14 areas of operation activity by the Illegal Money Lending Team England

Region	County/Unitary authority	Number of operations
North West	Manchester	10
East Midlands	Derbyshire	9
Yorkshire and The Humber	Bradford	8
East of England	Essex	7
North East	County Durham	7
Yorkshire and The Humber	Leeds	7
North West	Oldham	6
North West	Lancashire	6
South East	Kent	6
South West	Plymouth	6
South West	Devon	6
West Midlands	Staffordshire	6
East Midlands	Nottinghamshire	5
North East	Sunderland	5

Source: CSJ Analysis of Illegal Money Lending Team data

## chapter three

# Illegal money lending: Forms and consequences

Illegal money lending exists in Britain today. Using data collected and provided by the Illegal Money Lending Team England, we have been able to analyse the experiences of 1,252 victims – the largest sample used to date. In addition to this, we have carried out a number of interviews with victims of illegal lending, accessed victim testimonies, and acquired documents used by illegal lenders in the course of their illicit activity.

### 3.1 Overview: illegal money lending today

Illegal money lending emerges in a wide array of types and forms – each specific to the context in which it takes place. Lenders are not only men; a significant number are women. Lending activity spreads across a spectrum of seriousness: some is less immediately harmful, offering borrowers lower interest rates than those found in the regulated market; others employ extreme violence.

Illegal lenders continue, for the most part, to act alone and rely upon their reputation as an effective enforcement mechanism, but the CSJ has heard of a number of cases where multiple loan sharks have been arrested, usually where they are coordinating a business together.

Common tactics that lenders employ include befriending victims in order to build a strong relationship and rapport, which is later exploited, (see Chapter Five) and testing a victim's tolerance for repayment with small initial advances to build dependency and transform the victim into a revenue stream for the lender.

We know that the number of borrowers per lender varies. Some lenders have been found to have lent to as few as 15 clients. Others have a sprawling operation of several hundred victims, some of whom they have never met.<sup>25</sup> Not all borrowers have an extremely negative experience as loan sharks are known to identify the most vulnerable among their debtors to deploy effective methods of manipulation for further payment.

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25 Stop Loan Sharks, *Bracknell loan sharks ordered to pay back £70,000 in proceeds of crime*, 2017

Enforcement methods vary. The vast majority of lenders ensure payment via pester power, psychological manipulation, and coercion. Some have been known to seize the property of their victims as security, and a small but significant minority employ intimidation and violence.

Loans are often supplied via cash or bank transfer and lenders rarely provide any paperwork or show any care for consumer rights. Lenders are also fast, providing a decision and the transfer of cash at short notice.

The extent to which lenders attempt to hide their illegal activity also varies. Some lenders employ a thin veil of legitimacy to cover their activity by claiming to work for real companies. They advertise their 'business' and draw up fake contracts, while others do little more than keep notes in a notebook or spreadsheet. A lender's response to the authorities also differs, with a small minority of lenders continuing to illegally lend money even after their arrest.<sup>26</sup>

As a diverse and dynamic activity, we know that changes are afoot in an increasingly digitised social and financial world. Lenders no longer operate solely within small estates as they used to but are now using social media and dating apps to target the vulnerable online. The ability to send messages to victims or those around them has proved a strong method of control.

Finally, we know that the consequences of borrowing from a loan shark can be severe. Exploitative interest rates and arbitrary additional fines mean the cost of repayment from a loan shark is unpredictable. When payments are missed, a loan shark will typically pester, threaten, and terrify their victims into repayment. In the course of this research, we have been struck by the devastating consequences for a debtor's finances, mental health, and physical wellbeing.

This section provides an up-to-date taxonomy of the types of illegal lending that are known to take place in the UK today, as well as the tactics loan sharks use, and the damage they inflict upon their victims. We present the stories of borrowers we've spoken to as well as the testimonies of other victims. These show all too plainly the real-life impact of illegal lending today.

### 3.2 The community-based lender

Loan sharks still operate on estates in the traditional, small scale lending model that prevailed a decade ago,<sup>27</sup> even though they are not as prevalent today as they were before. Illegal lenders of this type are likely to operate within a local geographic remit, even if that remit has no logical boundaries, advancing small sums of money. One adviser described this type of lender as infiltrating 'an entire patch' of a local area.

Lenders will often be known around their estate as 'someone who lends money' and they may even seek out customers. We were told of several loan sharks who seek out the financially vulnerable at local pubs, job centres, and foodbanks.

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<sup>26</sup> DevonLive, *Husband and wife 'loan goldfish' continued to run illegal business after it was exposed*, 2019

<sup>27</sup> Department of Business, Innovation and Skills, *Interim Evaluation of the National Illegal Money Lending Projects*, 2010

Worryingly, community-based lenders have been known to target children and use them as a means of prompting their parents to borrow money. For instance, a lender might approach vulnerable parents in the playground. In one case, a loan shark was found to be handing out their details to children as they left school, telling them to get their parents to ring them if they wanted new trainers.<sup>28</sup> In another, we heard of a loan shark who would buy children selection boxes as a means of warming himself to their parents.

### Michelle's story\*

Michelle met her lender in the school playground.

She seemed to start gravitating towards me and chatting to me so we sort struck up a conversation that turned into a friendship.

The loan shark was friendly at first, but started to overshare very quickly

I was struggling and there was something coming up where I needed extra money. She brought it up quite quickly actually, to say: oh well, I can help.

As a friend, Michelle assumed she was borrowing off a friend with no interest. Despite struggling with fluctuating hours, she paid it back. The loan shark suggested she could lend her more money, but this time it would have interest.

I knew I shouldn't... but I did because at the end of the day I needed it, it's as simple as that. It's business and it's like oh well fair enough, she's trying to make herself something as well and we're all struggling, so we're still friends.

Payments started small but ended up growing.

I remember at one point it equated to £2,500 or something. I had to borrow more because I'd paid it back.

I was stressed over the repayments, and I knew I had to pay them back because I'd seen what she'd done to other people.

The loan shark made it her business to know what day Michelle got money, so she could ask for it.

I could see it getting out of hand but I thought: what other choice did I have?

Michelle didn't want to go to anybody and admit that she was struggling. She was ashamed.

There would start to be threats... I made that my children were fine and I went without. I just continued to pay until the point that I was so depressed I just got to the point of wanting to just end everything.

The loan shark had Michelle's windows broken and got local children to go to her house and intimidate her.

I would sit in my bedroom at night, and I would listen to things being shouted through my window... and just sitting there in fear, so I had to go home. I didn't want my kids to think there was anything wrong.

28 Daily Mirror, *Exclusive: Shameless loan sharks lurking around school gates and targeting Kids for Christmas*, 2018

Michelle was forced to leave her home and was placed into temporary housing just before Christmas, leaving everything behind.

I just felt like an absolute failure as a parent. Actually, I felt like a failure as a person.

Even after leaving, the loan shark attacked Michelle on social media.

\*Anonymised

He bought all the kids in his area selection boxes. He didn't do em any harm, but he did charge them double bubble.

**Team Member, Illegal Money Lending Team**

He finds out through his children which of their friends are hungry or don't have the best shoes and then he targets the parents at the school gates.

**Team Member, Illegal Money Lending Team**

Local lenders are likely to be known to the local community and their reputation alone carries weight. In one area, we discovered two loan sharks who were well known in the area for openly lending money. When payment is not forthcoming, loan sharks of this kind are likely to enforce payment by pestering, wielding the sheer force of their reputation, intimidation, or they may not even bother their victims at all. The CSJ also heard that, in some communities, lenders undertake their business quite openly – occasionally in broad daylight. The power they possess over their borrower reduces the likelihood of them being reported and passers by mistake the crime for something else.

One loan shark was so brazen that he actually stood on street corners in broad daylight handing over money to borrowers whilst also meeting other borrowers to take repayments for their loans. So, this confirms that it is happening under our very noses and at times in full view of the public. This is why at times, it remains notoriously well-hidden because if you don't know how to spot the signs, then the illegal money lending activity goes unreported because those who do witness this behaviour recognise that something untoward is happening but more often than not will not assume illegal money lending but other types of criminal activity...

**Team Member, Illegal Money Lending Team**

The loan shark was living next door and they knew that we'd been given a statement, but it didn't seem to bother them. The victim said that they didn't feel threatened.

**Team Member, Illegal Money Lending Team**



## 3.3 The business

Some lenders will attempt to disguise their illegal lending business with a thin veil of legitimacy, drawing up unenforceable contracts and advertising themselves as a legal lender. This usually takes three common forms: The small business owner, Mr/Mrs Pretend, and the parallel lender.

### 3.3.1 The small business owner

The CSJ heard a number of reports of loan sharks who use their business as a front for illegal lending and even heard that, in some cases, the lending itself was more profitable. The shops we heard about were often at the heart of a deprived community, usually a large council estate that was not serviced by many other amenities.

We heard about two cases where lenders were operating out of their store, an off-licence and a jewelry store. In one case, the loan shark offered to lend the borrower money when they picked up their order, knowing them to be in need of money. When the borrower attempted to return to their home country to escape the lender's harassment they were arrested because the lender had told the authorities in the victim's home country that the loan was legitimate.

The CSJ heard that this type of lender will occasionally exploit victims when they cannot pay by suggesting that they work for the loan shark's business without payment.

*As a community worker, I was shocked and disheartened that illegal money lenders who have worked our area for years bought a local shop as a front in order to befriend local vulnerable people.*

*They made the people feel special by chatting to them, giving them gifts, and taking them out in their cars before offering them a solution to their financial hardship. Even more disheartening, the police also visited the shop not to investigate but as customers...*

### 3.3.2 Mr/Mrs Pretend

Another common business type that loan sharks sometimes operate is to pretend that they are a legitimate lending company. Lenders will draw up contracts and advertising material to give to their customers in an attempt to create a thin veil of legitimacy. In some cases, lenders start their own business after they have finished working for a legitimate loans company but fail to acquire a license, meaning their activities are illegal.

One elderly man from Gloucestershire was sentenced to 18 months suspended for two years for doing just this. He set up a company called 'Club Finance' to offer 'roll over' loans charging a typical interest rate of 65 per cent. A number of his customers were paying off two or more loans at the same time.

When questioned, the lender admitted that he used the name 'Club Finance' because he didn't want people to think it was just him but a real company. He admitted having no license to operate and told officers that the almost £36,000 found at his address was obtained from his business. The business made over 650 loans to 196 separate customers, valuing almost £700,000. He received a total sum of £464,296 in repayments and was owed over £200,000 at the time of his arrest.<sup>29</sup>

### Eileen's story\*

While living at her old address, Eileen was canvassed by an agent from LocalLoans. A long time later, Eileen needed to pay her tax, but couldn't get a loan from her bank because she had a bad credit rating. She had never borrowed from a doorstep lender before.

An agent from LocalLoans visited Eileen's house and gave her the loan. Over the next few years, Eileen took several loans from the company, and she was given a loan agreement and a loan book in which the agent marked down her fortnightly repayments. Once she'd repaid the loan, Eileen didn't see the agent for a while.

Sometime later, she met the agent at her friend's when they were collecting a repayment. Needing money for a car to support her disabled daughter, Eileen borrowed from the agent again, who said he was now working for himself.

Eileen borrowed about £300, but this time she wasn't given any paperwork or an agreement to sign. Instead, he marked it in a loan book, which was an old Local Loans book with the logo covered up. At no time did Eileen know how much interest she would be charged or for how long she needed to make repayments. Eileen found herself in a position where she had to keep borrowing to feed her family.

Eileen repaid between £80–£100 every fortnight for almost three years.

\*Anonymised

In other cases, a lender is denied a license, or their license lapses, but they continue to lend anyway.

We heard of a lender who had applied for a consumer credit license but been refused because the Office of Fair Trading was not satisfied that they were a fit and proper person. Despite this, they provided loans anyway and recorded a draft email on an iPad to track the progress of the individual loans they made.

Another lender in Plymouth failed to renew his Consumer Credit License in 2011, and yet continued to sell cars on hire purchase and gave out cash loans to vulnerable taxi and private hire drivers. He was lending to fifty clients who were financing their vehicles. To enforce repayment, the lender took security, often keeping the spare key and the registration of the document until the final payment was made. His victims were expected to pay £100 a week, and this was either collected from their home or paid directly into his bank account. One victim was charged £5,000 for a £3,000 loan.<sup>30</sup>

29 Stop Loan Sharks, *Gloucestershire Loan Shark Sentenced*, 2017

30 Stop Loan Sharks, *Plymouth Loan Shark Ordered to Pay Back Thousands in Proceeds of Crime*, 2017

Finally, two illegal lenders who jointly operated in different areas across Greater Manchester were sentenced at Manchester Crown Square on 30th November 2016. During searches of the two lenders' addresses, the Illegal Money Lending Team officers recovered documentation under the name of 'Abacus Loans', a legitimate business that had ceased trading in March 2013. The prosecution told the court that the two lenders had effectively hijacked the name 'Abacus Loans' from the previous owner and lent money in its name.<sup>31</sup>

Image 1. Picture of Abacus Loans documentation



Source: Illegal Money Lending Team England<sup>32</sup>

### 3.3.3 The parallel lender

The final type of thinly veiled legitimate business we came across was the parallel lender. The CSJ was given evidence of several loan sharks who worked for regulated doorstep lending companies but offered loans to those whom their company rejected separately. This type of lender therefore has a keen insight into who the most financially vulnerable people in an area are and exploit this knowledge for profit.

<sup>31</sup> Stop Loan Sharks, *Quarter 1 National Newsletter*

<sup>32</sup> Stop Loan Sharks, *Quarter 1 National Newsletter*

Typically, intimidation in these cases is limited as the lender is employed or previously employed by a legitimate business and seeking to make additional profit on the side. We received evidence about a case where a lender was using paperwork from a legitimate lending company and deceived their victims into believing they were a legitimate lender. In another case in Greater Manchester, one couple, who had previously been involved in lending for a legitimate company, made about a million pounds from lending. They were said to charge reasonable rates and did not intimidate their borrowers, but they were not licensed to lend.<sup>33</sup>

**They target the good payers and go to the people who are a little bit vulnerable but always pay up.**

**Team Member, Illegal Money Lending Team**

### 3.4 The coercive lender – ‘low level’ manipulation

Most loan sharks are known to use low level and psychological manipulation to enforce repayment from people that borrow from them. Indeed, we heard that the damage loan sharks have on a victim’s mental health often greatly exceeds the damage on their physical health. Manipulation can take the form of threats either to a victim’s person or to their standing. In some cases, this will involve threatening to expose the victim in the community as a ‘bad debtor’ and as someone who shouldn’t be trusted. Shame is a key means by which loan shark victims coerce their victims into repayments.

**They’ll say, you know, wouldn’t it be awful if you had a row with your Mrs before Christmas because I told them that you’d borrowed from me.**

**Team Member, Illegal Money Lending Team**

In others, this will involve threatening to tell their family or employer. CSJ analysis of victim data presented later in the report shows that 40 per cent of loan shark victims report not telling their partner about their loan, and this can represent a powerful incentive to pay.

Some loan sharks will make themselves a constant presence and simply ‘hang around’ the area. In one instance, we heard of a case where a lender had muscled themselves into the borrower’s business as a quasi employee as a means of making money, but also in order to keep abreast of how much the victim could afford to repay. This tactic can be used in two ways. In one form, it is a powerful surveillance technique that is used to maintain a shadowy presence over the borrower. In others, it is used to increase the borrower’s dependency on the lender and creates a parasitic, symbiotic relationship.

Lenders have been known to tell borrowers that they have done something illegal by borrowing from them and thus scare them into repayment. This can be associated with other coercive and controlling behavior, such as monitoring a victim’s activity through their phone, causing the victim to doubt their perceptions or judgements, or limiting their access to their own money.

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33 Stop Loan Sharks, *Chorley Couple Receive Prison Sentences For Loan Sharking Offences*, 2017

More terrifyingly, some loan sharks have threatened a victim's person or others close to them. A lender might threaten to harm a borrower, even if they don't then go on to carry out that threat. Children can also be targeted. In one case, a lender threatened to have a borrower's children bullied and another loan shark even threatened to walk a borrower's kids home from school. It's unsurprising, then, that manipulation and threats of this kind can make victims feel powerless to resist for a considerable length of time.

Loan sharks of this type have also been known to seize property and use it as security on the loans that they have forwarded. One infamous loan shark, an elderly woman in the West of England, is one such example of someone who used local 'enforcers' to seize property and manipulate her victims.

### Lending in Bristol

Aged 78, one grandmother in Bristol walked around her local high street with a walking stick and a bad hip. To the outside world, she seemed harmless.

She was known in the community for running a business as an illegal loan shark, advancing money to vulnerable clients who struggled to pay it back and charging up to 300 per cent interest. Her job as a catalogue agent gave her a front for her illegal lending.

To enforce her debts, the lender had a group of female 'enforcers' who intimidated her victims and forced them to hand over blank cheques, their benefit books, bank cards, and pin numbers.

Victims reported her saying: *'I know people and I will sell your debt on to them, then you'll be in trouble.'*

But it's important to note that not all loan sharks of this type act in this way. We heard of a case where the lender only lent to women, whom he believed he could scare. However, when the victim's husband emerged, the lender ceased to trouble them.

**He would pull his car up outside her house once a week and just sit there for 2 hours.**

**Team Member, Illegal Money Lending Team**

## 3.5 The illusive Mr Big

Closely related to this lending type is a tactic employed by lenders referred to as the 'illusive Mr Big'. This is where some loan sharks create a perception of being allied with an organised crime group.

When a victim cannot pay, the loan shark will claim that the money they have lent to the victim is not their own but belongs to another person who is more powerful and, crucially, more violent than the lender with whom they have contact with. The lender then threatens the debtor with the intervention of Mr. Big if they do not pay up and claims to be powerless to stop it.

We had one case where when she couldn't pay, the lender threatened her with the illusive Mr Big. 'Oh, it's not my money', he said, 'it's his.' When we investigated, we found out that this Mr Big didn't exist.

**Team Member, Illegal Money Lending Team**

### 3.6 The violent one-man band

We heard of several loan sharks who operated an illegal lending business and used extreme violence when victims could not repay, acting alone in some instances. In one instance, an illegal lender threatened to break their victim's legs. One lender even manipulated his way into moving in with his victims and demanded that they repay him while he was living with them, doubling their repayment for each missed payment.<sup>34</sup>

We've heard of several loan sharks who have turned up at victims' homes and proceeded to damage them, such as kicking the door in and throwing a brick through the window. While it is believed that this behaviour is uncommon, the type of loan sharks who use violence to coerce repayment do exist.

### 3.7 Organised crime

In a small number of cases, loan sharks are found to be linked to organised crime groups. This ranged from a small group of accomplices to wider groups. We heard of several London boroughs where a victim found themselves in the grip of an organised crime group and struggled to come forward for fear of the consequences.

One illegal lender, who was based in Cheshire, was jailed indefinitely in 2009 after he was found to have extorted millions of pounds from hundreds of people. Charging up to 125 per cent interest, the lender would turn up at victims' homes, sometimes with enforcers, and threaten them with knuckle dusters and baseball bats. In one case, he threatened to petrol-bomb a victim's home. Tragically, one of his victims, a 22-year-old, took his own life after his loan of £300 spiralled to £3,000 in 12 weeks. This lender was imprisoned indefinitely for a number of offences, including blackmail, assault, acquiring criminal property, and rape.

Deeply indebted, some female victims were offered the opportunity to 'pay in kind', while others turned to prostitution to finance their borrowing.<sup>35</sup>

**Your priority is to pay me, not feed your kids.**

**Convicted loan shark**

One case in the North West that was brought to our attention was of a lender who called himself 'The Money Man'. He texted an entire estate telling them to come to The Money Man if they needed money. When they couldn't pay up, he was known to send a picture of himself with a gun.

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<sup>34</sup> Daily Mirror, *Brute loanshark bullied man into buying Mercedes, doubled debt and left woman begging*, 2022

<sup>35</sup> BBC News, *Cheshire loan shark Paul Nicholson stripped of £1m*, 2010

## 3.8 Payment location

Each loan shark is likely to have a preferred location for repayment and this will reflect the business model they operate. Figures from the Illegal Money Lending Team show that repayment largely takes the form of a cash payment at the victim's address or a bank transfer. In 2020, almost 30 per cent of victims reported paying their lender in their own home.

The CSJ spoke to several victims of illegal lending and experts in the area who told us that cash is still a popular option. We were told about one lender who kept records and money in brown envelopes while others were reported to store their money in small plastic bags. Other cases have involved a victim repaying their lender on the school playground, around the area generally, or even being driven to a pay point. As has already been mentioned, one lender seized her victims pension books and cashed in their repayments at the post office.

The consistent prevalence of bank transfers suggests that this will increasingly be an important means by which the authorities can attempt to track and investigate loan sharks. The CSJ heard of several cases where victims were obliged to repay via bank transfer and were told by their lender to split the payment and avoid referring to the payment as a loan.

Interestingly, the CSJ heard of some cases in which payment was made by other forms. In one instance, the lender obliged the borrower to pay for services that the lender used as a means of hiding the repayment.

## 3.9 Recent innovations

In recent years, there have been two primary innovations in the way that loan sharks operate. The CSJ heard that illegal lenders were increasingly operating online via social media applications and boards. We also heard that there has been a rise in renting loans, which is discussed in greater detail later.

### 3.9.1 Social media

Social media is increasingly part of our lives, and loan sharks are known to use the medium to find, communicate with, and threaten their victims. In 2020, 11 per cent of loan shark victims reported meeting their lender for the first time on social media. The CSJ heard that loan sharks are sometimes well-known figures inside closed online groups, but others have been known to advertise their business openly.

The use of social media has allowed loan sharks to access victims across the country that might once have remained out of reach. During a search of one illegal lender's home, the Illegal Money Lending Team seized bank receipts and electronic devices which evidenced that the lender had provided over 500 personal loans to 186 borrowers across the country. They had received over £195,000 in loan repayments and were charging 30 per cent interest per month.<sup>36</sup>

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<sup>36</sup> Stop Loan Sharks, *Bournville Loan Shark Receive Prison Sentence*, 2017

Even before the pandemic, there was an increase in online lending, mainly via social media platforms like Snapchat. It gives a lender a bigger geographical reach, and lets them threaten/manipulate people 24 hours a day through their phone. It can make victims feel even more isolated, as they often have no context or contact with other victims.

Team Member, Illegal Money Lending Team

### Case study: Lending on social media<sup>37</sup>

One lender in Doncaster operated his illicit activity on Snapchat and even paid an influencer to advertise his loans.

As part of their applications, borrowers were required to submit a copy of their ID, benefit entitlement, and a picture of their front door. He never met any of his victims.

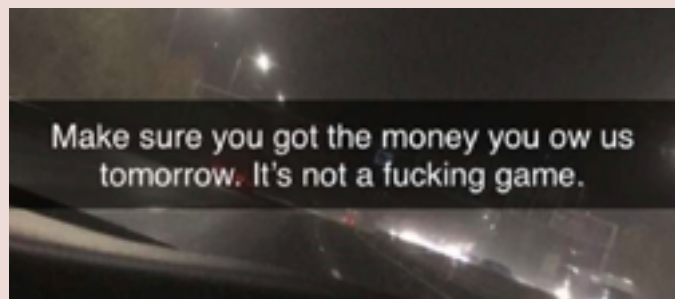
When victims couldn't pay, the lender used Snapchat to threaten victims by showing his location as near their house. One victim was sent a picture of a house and vehicle by the lender in an attempt to intimidate them. The lender believed them to belong to the victim's mother.

Another victim was sent: *'Sometimes it's better to avoid circumstances whilst you can. Because when I start coming for you it will be too late.'*

Another was sent: *'You keep thinking it's a game till I find you.'*

He also used associates to threaten victims. One woman, who became aware of the lender's business via Snapchat, was slapped twice in the face by a man who approached her in the street and asked: *'Where's Lou's money?'*

Image 2. A picture sent by the lender or associate on Snapchat to one of his victims.



Source: Illegal Money Lending Team England

When he was arrested, the lender refused to provide the pin number and password to his phone. He continued to operate illegally following the arrest, setting up a company called 24/7 Loans and was re-arrested in March 2020 when a further phone was seized from him. At the time of his first arrest, he had an outstanding balance of £100,000.

Sentencing him for illegal money lending offences: Recorder Megan Rhys stated that borrowers *'did not borrow large amounts for extravagant lifestyles but for basic needs'*. They were *'understandably terrified'* by the threats made as their debts *'escalated beyond all recognition'*.

37 Stop Loan Sharks, *Loan Shark who Paid Snapchat Influencer and Threatened Borrowers Jailed*, 2021



Social media can also be used as a means of threatening and exposing victims. The CSJ heard a number of cases where victims had been exposed on Facebook personally, or their businesses had been targeted.

**We've had a case where the loan shark has gone on Facebook and told everybody that they owe them money. It's humiliating.**

**Team Member, Illegal Money Lending Team**

In addition to loan sharks using picture sharing social media apps, we heard that lending on the discussion boards and online marketplaces is also becoming more prevalent.<sup>38</sup> On one platform, a discussion board is moderated by volunteers, and those who have a 90-day account and a certain number of 'upvotes' can request a loan. While there is a suggested rate of interest, the borrower and lender often negotiate both the amount to be borrowed, the cost of borrowing, and the repayment period themselves. Loans are generally repaid by PayPal.<sup>39</sup>

Previous research has found that lenders sometimes ask for identification from the borrower, such as their driver's license, home address, or social media information, and, in some cases, more extreme information has been requested, such as explicit photographs.<sup>40</sup>

Borrowers often request loans for basic necessities, such as food, electricity, and gas, and requests are frequently associated with an explanation of the financial hardship that victims are facing. Borrowers also frequently thank the lender for providing support.

This is an area of increasing interest, and the Welsh Illegal Money Lending Unit has previously expressed concerns about this type of lending.<sup>41</sup>

**Recommendation 2: The Government should use the Online Harms Bill to ensure social media platforms are responsible for detecting and banning illegal lending from their platform.**

Illegal lenders are increasingly turning to the internet as a means of advertising their illicit activity to vulnerable, and often unsuspecting borrowers. We believe that online forums and marketplaces have a responsibility to ensure that their services are not being used by illegal lenders. As such, we recommend that the Government uses the Online Harms Bill to ensure social media platforms are responsible for detecting and banning illegal lending from their platform.

38 Wordnerds, *Understanding Money Lending Online in Wales*, p. 9

39 Wordnerds, *Understanding Money Lending Online in Wales*

40 Wordnerds, *Understanding Money Lending Online in Wales*

41 Share Regulatory Services, *Loan Shark Unit would like to speak to Reddit borrowers*, 2021

### 3.9.2 Renting loans

The second innovation that the CSJ heard about is the growing prevalence of so-called 'renting loans'. This is where a victim will be advanced a loan and be required to pay a sum of money, sometimes termed interest, at regular or irregular intervals until they can pay the capital sum in full. In many cases, the interest sum is well beyond the affordability of the borrower. As such, the capital sum is never repaid, meaning victims pay thousands of pounds to loan sharks without ever making a dent into the initial amount that they borrowed.

#### Ali's story\*

Ali worked as a trader, and was working to pay for his parent's healthcare. Times were tough and it became common knowledge that Ali needed money. One day, Ali received a call on his phone from a man whom he worked near. The lender asked if he would like to borrow money and Ali agreed to borrow several thousand pounds. It was given to him in cash, and nothing was signed.

Ali was told that he would have to pay 10 per cent interest on the outstanding balance each month, with the first month free. A short time later, the lender said that he would have to pay an initial interest payment for the first month and threatened to add the interest payment onto the total loan amount if payment wasn't made.

A few months later, Ali had to borrow more and more money, putting his loan in the higher thousands with a monthly interest payment of 10 per cent. When Ali struggled to repay, the lender threatened to find payment through his family members, and, as the lender was well known in the community, the threats carried weight.

When Ali did make a payment of several thousand pounds, the capital amount didn't decrease because the lender said late repayments had disrupted his business.

\*Anonymised

## 3.10 The consequences of borrowing from a loan shark

The consequences of borrowing from a loan shark are manifold, and thus far this report has illustrated a number of those, including the cost of repayment, psychological manipulation, threats of violence, and the tragic loss of life when victims reach breaking point. Having gained access to the largest dataset of illegal money lending victims analysed to date, in this section we examine the consequences for borrowers in more detail.

### 3.10.1 The cost of repayment

As emerges in the cases explored above, the cost of repayment for illegal loans is often highly arbitrary. Using data from real cases of illegal lending, the examples below illustrates the wide array of borrowing costs as collected by the Illegal Money Lending Team. While some borrowers find that the cost of repayment is small, for others, it is crippling. Of

course, this is reflective of victims' personal circumstances. But is also suggestive of how illegal lenders deploy different approaches to achieve their shared aim: to make a profit and convert their victims into a revenue stream.

Table 4. Repayment rate for three victims of illegal money lending

<b>Example 1</b>	Abby borrowed £3,000 to pay off her brother's loan and cover some household bills. She repaid £20,000 over the course of 2-3 years.
<b>Example 2</b>	Kyle borrowed £3,000 to cover household bills and everyday living expenses. He repaid £250 for 18 months.
<b>Example 3</b>	Ella borrowed £3,000 to purchase or repair her car. She made payments for 5 years and paid back £18,000.

In practice, the amount that victims borrow often has little relationship to the amount that they actually repay, and this is likely to be due to a number of factors, some of which include:

- loan sharks are illegal lenders and are therefore do not subject themselves to any meaningful regulation around APR and affordable lending;
- loan sharks sometimes do not keep accurate records of payments because victims are not regularly expected to stop paying;
- loan sharks add additional payments to the loan for late repayments or arbitrarily add costs.

We heard of several cases where loan sharks have been known to identify vulnerable victims and exploit them more than their other victims. Hypothetically, a lender might offer loans to 100 people, but choose 10 vulnerable victims to pursue endless repayments from. Because lenders often do not provide paperwork or a clear and regular update of repayment costs, obfuscation and intimidation can lead to victims repaying significantly more than they borrowed. This is reflective of the fact that a key intention for all loan sharks is to make a profit, and, for some, it is to turn their victim into a revenue stream.

Where terms do exist, they can be extortionate. One common repayment calculation is 'double bubble.' The calculation is simple. A victim is expected to pay back twice the amount that they borrow, and, in some cases, the amount that has been borrowed doubles upon a missed payment. This means that debts spiral very quickly and soon become unmanageable.

We also know that the cost of repayment is often pushed to the extent of the victim's ability to pay. Many victims report handing over their entire income to a loan shark and therefore report finding it hard to remain financially afloat without resorting to borrowing even further. Others report going without basic essentials to keep paying the loan shark. Data from the Illegal Money Lending Team shows that 28 per cent of victims in the 2020 cohort went without food, fuel or missed rent or mortgage in order to keep paying the illegal lender.

Double Bubble is the interest quoted by some illegal money lenders. It suggests you pay back twice what you borrow – so borrow £500, pay back £1,000. However, the short-term nature of a lot of these loans (such as a month) means paying back double is often extremely unrealistic, and then the lender adds indiscriminate and extortionate charges as well.

**Team Member, Illegal Money Lending Team**

I've turned to prostitution to fund repayments. I'm alcohol and drug dependent. I've been beaten, I've been drugged, and I've been kidnapped. I'm worried he'll do my kids harm. They're grown up and they know I'm a prostitute. They've begged me to stop but I need to pay him.

**Ella, 53**

There was this one case where a victim had borrowed £200 to put credit on the electric metre and buy baby products. They agreed to pay back £400 in one month. A little while later and they're handing over £670 in Universal Credit payments every month and then borrowing it all back!

**Team Member, Illegal Money Lending Team**

### **Hannah's story\***

Hannah is a single mum with 2 kids who lost her job just before the first lockdown. She needed to borrow £400 to pay bills and live off while claiming benefits. She agreed to pay back double bubble, in the form of £100 per month for 8 months.

When she paid back the first month in cash, the loan shark asked for the rest. Unable to pay, he doubled the remaining balance to £1,400. The next month, she paid £500 leaving a balance of £900, which the loan shark doubled again to £1,800. The following month, she paid him her entire UC payment and other monies leaving a balance of £800. He doubled the remaining balance again to £1,600.

This went on for 9 months until the debt reached £3,200 and Hannah reached breaking point. She asked a relative for help who lent her the money. She withdrew it over a few days and paid the lender. Hannah was a day late, so he doubled it again to £6,400 and demanded a further £3,200.

Hannah paid over £10,000 for a £400 loan, surviving with her children on school meal vouchers while Britain was locked down in 2020.

\*Anonymised

### 3.10.2 Threats and violence

As we have seen, some loan sharks subject their victims to threats and violence when they cannot pay the amount that is being demanded of them.

Some loan sharks rely purely upon their reputation in the area to enforce payment and occasionally feel the need to make an example of a victim to uphold that reputation. Others have enforcers to do their dirty work for them. Victims may have their families, property and financial security threatened amongst other things. In more extreme cases, loan sharks can become violent.

We found that more than half (51 per cent) of the 2021 victim cohort had been verbally abused, threatened with physical harm, or actually harmed by an illegal lender.

*They're worried for their personal safety because the loan shark is known to be aggressive and has friends in the area.*

**Team Member, Illegal Money Lending Team**

*One lady, she was petrified of them. She was worried about them turning up at her house and beating her up, worried about them sending people round to the house.*

**Team Member, Illegal Money Lending Team**

*He'd make all sorts of threats to me, break my legs, break my arms, put my windows through, banging on the door late at night, meeting my daughters and stepdaughters at school and shouting at them on the way home from school saying I owed them money and I've got to pay it otherwise they were going to hurt them. It just wasn't nice.*

**Matthew, 48**

*They've said they want another couple hundred from me in not too long otherwise they'll put me in the boot of the car and stab me.*

**Harry, 45**

*I got calls and messages by people threatening me. They told me that they would sell my debt and rape me. They told me I should be scared when I walk the streets and they gave my number to people who call me and ask me where I am.*

**Hannah, 29**

### 3.10.3 Payment in kind

In more extreme cases, the CSJ has heard about how victims have been forced to provide a service when they cannot pay the money back. In some cases, this will be delivering drugs for the lender or using their home as a host for the lender's drug activities. We heard that this is more common amongst younger age groups.

It remains the case that some lenders demand 'payment' in the form of sexual favours, typically from female victims, and the last major study of illegal lending found that over 10 per cent of lenders were reported to have demanded sexual favours.<sup>42</sup>

She doesn't want to leave the house because she's scared for her life and her daughter's life. He made sexual threats against her and she's refused to meet him because she doesn't know what he will do.

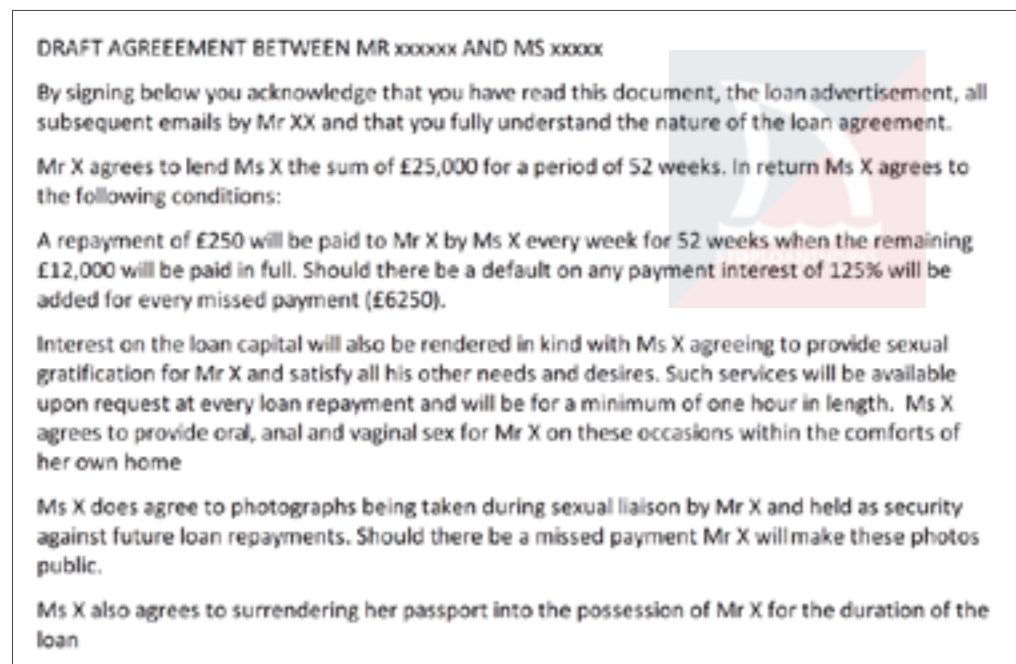
Team Member, Illegal Money Lending Team

I'm scared of what he can do. I had to sleep with him because I couldn't afford the payments. I feel unclean... I knew it was wrong, but he took a photo of my daughter coming out of school and sent it to me saying: 'We now know what she looks like.'

Anna, 38

More distressingly, the CSJ found that some lenders even write the expectation of sexual favours into their contracts. See, for example, the template contract below used by an illegal lender and acquired by the Illegal Money Lending Team.

Image 3. Example contract between a loan shark and their victim



Source: Illegal Money Lending Team England

42 Department for Trade and Industry, *Illegal Lending in the UK, Research Report*, 2006, p. 55

### 3.10.4 The criminal justice system

The CSJ has heard a number of cases where loan sharks have threatened to take victims to court for their debts, despite their illegality. In some cases, we heard that the lender has been successful in having the court place a County Court Judgement (CCJ) on the victim.

In instances where the authorities do become aware of the case, the court can be contacted and asked to pause the case while the lender is investigated, but a 'stay' is not often forthcoming. We heard from the relevant authorities that typically, a court will not respond. If they do respond, they will request an N22 application with a £100 cost, or £255 cost if a hearing is required, from the authorities (who cannot complete one because they are not a party in the case), or the alleged victim. This cost is unaffordable to most victims who are paying an illegal loan shark.

Even when an N22 has been submitted and the case paused, lenders have been known to pay in order to bring the case forward again. In some instances, the only opportunity for a victim to report the lender is to announce it in the court and this risks interfering with the associated criminal investigation. It also creates additional stress for vulnerable victims.

Where a County Court Judgement is placed upon a victim at the request of an illegal lender, the cost of removing it after the lender has been found to have been acting illegally is expensive. This cannot continue. The Centre for Social Justice recommends that the court systems work in greater co-operation with the Illegal Money Lending Team England to take appropriate action on cases where this occurs and for the cost of setting aside judgements to be waived where a loan shark is convicted.

**Recommendation 3: The County Court System must work in greater cooperation with the IMLT to protect victims from judicial action from illegal loan sharks.**

Illegal lenders have been known to use the court system to place a CCJ on their victims, despite the loan itself being illegal. Where the Illegal Money Lending Team have intervened, co-operation from the criminal justice system has been insufficient at best.

The Centre for Social Justice recommends that the court systems work in greater co-operation with the Illegal Money Lending Team England to take appropriate action in cases where the Team believes that an illegal lender is attempting to place a CCJ on a victim. This may include guidance issued by the team to support judges to recognise illegal lending when it appears.

Where the court system cannot prevent the introduction of a CCJ, the cost of setting it aside should be waived where a lender is later proven to be an illegal lender.

### 3.10.5 Family breakdown

Another consequence of using a loan shark is family breakdown. We know that problem debt has a damaging impact on family life. In a previous study, 36 per cent of users of the family charity Relate said that debt had a 'considerable' impact on their relationship with their partner, and this was legal debt. Debt creates mistrust, disrupts communication, and increases levels of conflict.<sup>43</sup> Money worries also fuel long-lasting stress to relationships, with previous studies showing that arguments about money take longer and are recurrent because a resolution cannot be reached.<sup>44</sup> Where both partners know about the loan, they can buckle under the pressure.

But there are also a significant number of cases where a victim does not tell their partner. Our analysis of victim data shows that around 40 per cent of loan shark victims report not telling their partner about their loan and this can place acute stress on their relationship.

We have also heard of cases where victims had borrowed from an illegal lender and then their partner became implicated in the false obligation to pay them. In one instance, after the loan had been repaid, the lender continued to demand more, claiming that more money had been borrowed. She received threats and the lender appeared in person to demand payment, further affecting the family.

We need marriage counselling because of the stress... we're scared to go out and we live in the dark with no lights. I feel sorry for my mum and dad and I'm scared for my whole family.

**John, 38**

The damage to relationships is not always marital. We heard several stories about victims who had reached out to their family members for support and struggled to repair those relationships after the incident.

### 3.10.6 Departure and homelessness

Nowhere is this separation more pronounced than when victims are forced to leave their communities entirely. We heard of several victims who had been rehomed because the loan shark possessed knowledge of their address, and victims resultingly became separated from their children who lived elsewhere.

In very extreme circumstances, victims have had to leave the area where they live. When this occurs, they may have to leave family behind, change jobs, take children out of school and start again. The number of people that are given this option is very low, as often the risk from the lender is perceived (deliberately created by the lender rather than real).

**Team Member, Illegal Money Lending Team**

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<sup>43</sup> Relate, *In Too Deep: An investigation into debt and relationships*

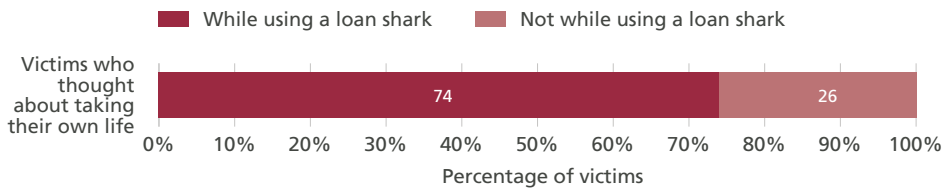
<sup>44</sup> Lauren M. Papp, E. Mark Cummings, Marcie C. Goeke-Morey, 'For Richer, for Poorer: Money as a Topic of Marital Conflict in the Home', *Family Relations*, 58, pp. 91–103



### 3.10.7 Driven to despair and the tragic loss of life

In the worst cases, the stress and consequences of using a loan shark drive victims to consider taking their own life. We found that over a quarter of all victims had considered or attempted to take their own lives at some point in their life. Of those who did so, almost 75 per cent said they had done so while using an illegal lender.

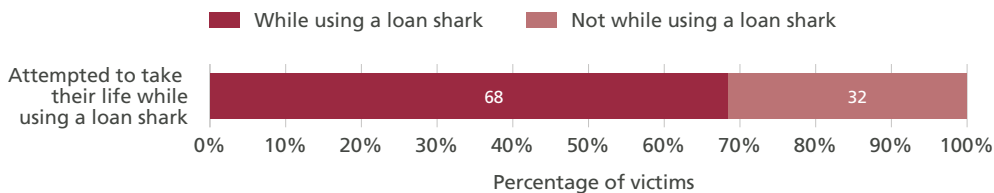
Figure 6. Almost three quarters of victims who have thought about taking their life did so while using a loan shark



Source: CSJ analysis of Illegal Money Lending Team England data (n = 146)

Over one in ten loan shark victims have attempted to take their own life at some point, almost 70 per cent of which say they did so while using a loan shark. This highlights the tragic consequences for some victims.

Figure 7. A clear majority of victims who attempt to take their own life do so while using a loan shark



Source: CSJ analysis of Illegal Money Lending Team England data (n = 60)

A young man is shown in profile, looking down and to the right. His right hand is pressed against his forehead, suggesting a state of distress or deep thought. The entire image is overlaid with a semi-transparent dark red color, which makes the subject appear somber and reflective. The lighting is soft, highlighting the contours of his face and hand.

part two

# Victims and their stories

## chapter four

# Understanding the victims of illegal money lending

Illegal money lending can destroy lives. And yet there has been little research to date into the victims of this crime. Part Two of this report aims to correct by using unpublished and annually released data from the Illegal Money Lending Team England to provide a unique insight into the lives and stories of those affected by illegal lenders. Chapter Four uses annually collected data, while Chapter Five uses the CSJ's own analysis of unpublished data from the Illegal Money Lending Team. We are grateful to the many victims of illegal lending who gave time to speak to us about their experiences and whose testimonies inform practical policy recommendations found in Part Three of the report.

So, who is most likely to fall victim? Our analysis of confirmed victims paints a picture largely of multiple deprivation and disadvantages. Victims are likely to be financially distressed, living on low incomes or benefits, and often maxed out to other creditors. Tenure is often reflective of a victim's financial position and usually takes the form of social housing or the private rented sector. However, wealthier victims are not unheard of, and the data also suggests that there is a risk of becoming a victim to a loan shark no matter where a household is on the income spectrum.

This questions previous studies of illegal lending that have suggested the practice is generational – that is, the same lenders being passed down from parents to child – both in the place it exists and who it affects.<sup>45</sup> While home-centric and legal forms of credit, such as doorstep lenders, were generational, the CSJ has found minimal evidence that illegal lending is generational outside the introductions made by friends and family. While friends and family make up a majority of introductions, they do not believe they are passing their loved ones into the hands of an insidious force, nor do these links seem to last more than one generation.

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<sup>45</sup> Financial Conduct Authority, *Shining a light on illegal money lending: consumer experiences of unauthorised lending in the UK*, 2017, p. 9

It certainly was the case that many years ago regulated doorstep lenders... were used generationally, as in if Mum used them, then daughter used them too. However, with illegal money lending, whilst it is true that family members of the same household use illegal money lenders, it is not necessarily a case of generational use. Many members of a household are completely unaware that a family member is using or has used a loan shark. Many have awful experiences through bullying, harassment & intimidation from the loan shark and so 'I'm going to introduce my children' just doesn't add up and it doesn't happen that often. In today's society, a parent is more likely to take out an illegal loan for their son or daughter who needs financial help rather than referring them to the Lender.

**Team Member, Illegal Money Lending Team**

## 4.1 Low income and financial resilience

Qualitative historical accounts describe illegal money lending as something primarily affecting those on low incomes and previous studies have confirmed this fact. A landmark study by the Department for Business, Innovation, and Skills published in 2010 found that the average monthly household income of a loan shark victim was less than £950. More recently, the Financial Conduct Authority found that a plurality of those borrowing from illegal lenders had an income of less than £14,999 a year (38 per cent).<sup>46</sup>

The most recent data obtained by the Centre for Social Justice broadly corroborates these findings. In 2021, 32 per cent of victims surveyed by the Illegal Money Lending Team England had an income of less than £14,999, dipping from previous peaks of 53 per cent and 48 per cent in 2017 and 2020 respectively. With 30 per cent of victims reporting an income between £15,000 and £20,000, this means almost two thirds of victims in 2021 had an income below £20,000.

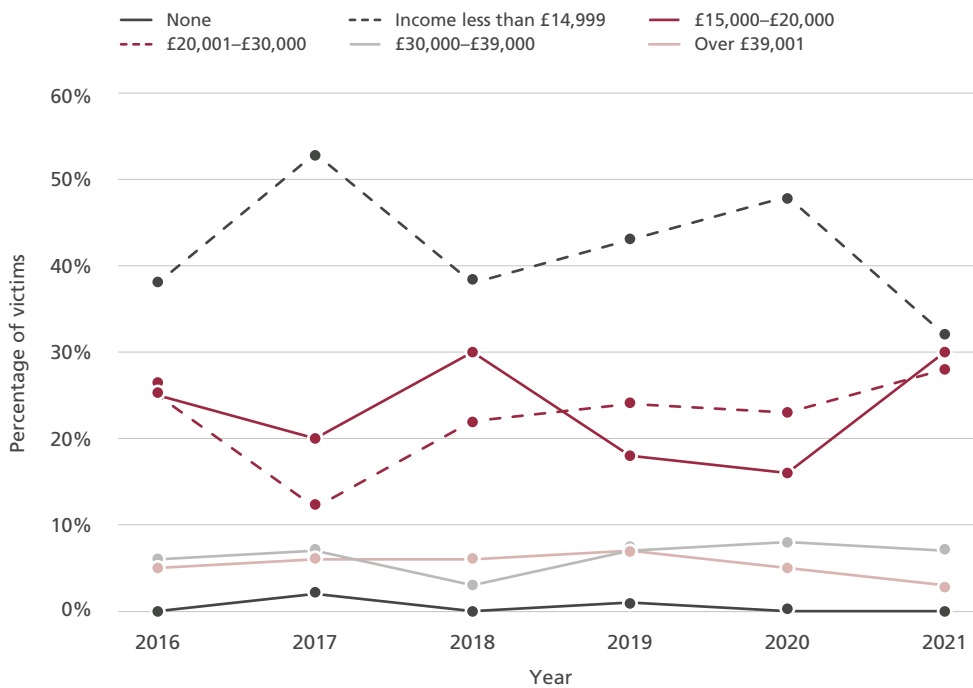
However, there is a notable minority of victims on higher incomes, too. The Financial Conduct Authority found that 25 per cent of borrowers have a household income of £20,000–£30,000, a similar figure to the 28 per cent 2021 victim cohort supported by the Illegal Money Lending Team of victims that the Illegal Money Lending Team England helped in 2021.<sup>47</sup>

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<sup>46</sup> Financial Conduct Authority, *Shining a light on illegal money lending: consumer experiences of unauthorised lending in the UK*, 2017, p. 19

<sup>47</sup> Financial Conduct Authority, *Shining a light on illegal money lending*, pp. 18–20

Figure 8. Income profile of victims of illegal money lending



Source: Illegal Money Lending Team England

This suggests that illegal lenders may target people across the income spectrum, all of whom have different financial needs. But what differences can we detect between victims with higher and lower incomes?

CSJ analysis<sup>48</sup> shows that victims on higher incomes share important commonalities with victims on low incomes. Victims with higher incomes are roughly equally likely to have been denied credit but are more likely to say they have other debts. Victims are also equally likely to say that they have borrowed from an illegal lender more than once regardless of their income. Where differences do exist, they may be unsurprising. Victims with higher incomes are overwhelmingly employed, whereas victims with lower incomes are not. Just over 10 per cent of victims with an income of over £25,000 are unemployed compared to almost two thirds of those with a household income of under £25,000.

Further qualitative evidence gathered by the CSJ suggested that victims in higher income categories were also likely to own a business and found themselves borrowing to make up shortfalls in cash flow.

This indicates the need for further investigation into the reasons why people from differing financial positions find themselves resorting to a loan shark. Previously published qualitative evidence has suggested that many of those who use an illegal lender do so because they have suffered an unexpected shortfall in their income. This reflects the

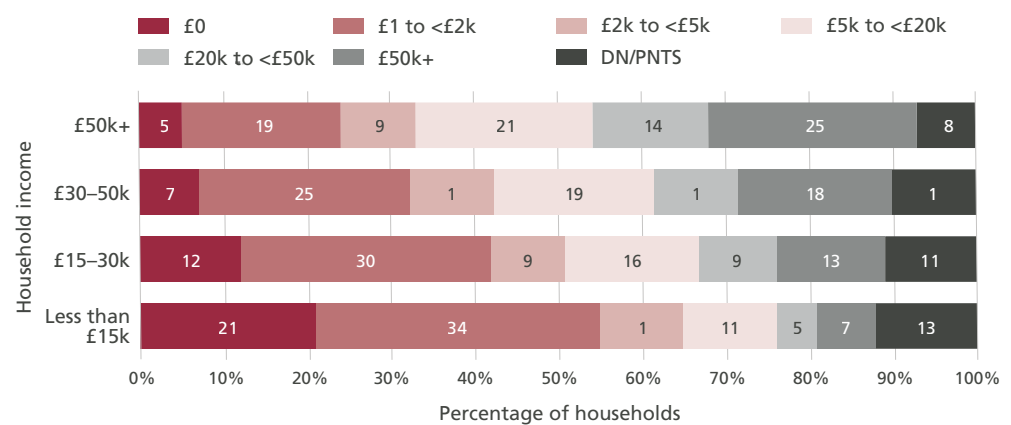
48 This analysis split victims into those with a household income above and below £25,000 a year.

fact that few people have substantial financial savings which they can fall back on in an emergency. Up to 90 per cent of those who used an illegal lender say that they would find it difficult to raise £200–£300 in an emergency.<sup>49</sup>

Low levels of financial resilience in Britain is therefore cause for even more alarm. While more affluent households were able to make record savings during the pandemic,<sup>50</sup> there remains a large segment of the population unprepared for economic shocks. The Money and Pensions Service notes that 11.5 million people have less than £100 in savings to fall back on, and 9 million people often borrow to buy food or pay bills.<sup>51</sup>

About half of those on the lowest income quintile say they cannot save £10 a month compared to just 5 per cent in the highest quintile.<sup>52</sup> This results in large segments of those on the lowest income possessing nothing in savings and thus vulnerable to an income shock or income shortfall. As Figure 10 below shows, over a fifth of those on low incomes report having nothing in savings.

Figure 9. Investible assets by household income



Source: Financial Conduct Authority

Unforeseen events place additional pressure on people's finances and ability to make ends meet when their income is already volatile and savings minimal. Crucially, research from Citizens Advice suggests that unforeseen events may be quite common. Fifty-seven per cent of people said that they or someone in their household had faced an unexpected cost over the last year. Given the low levels of financial resilience, many people are forced into debt in response – either via a licensed credit provider (such as bank overdraft or loan) or from family and friends. For others this can drive them insidious illegal lenders (see below, Chapter Five).

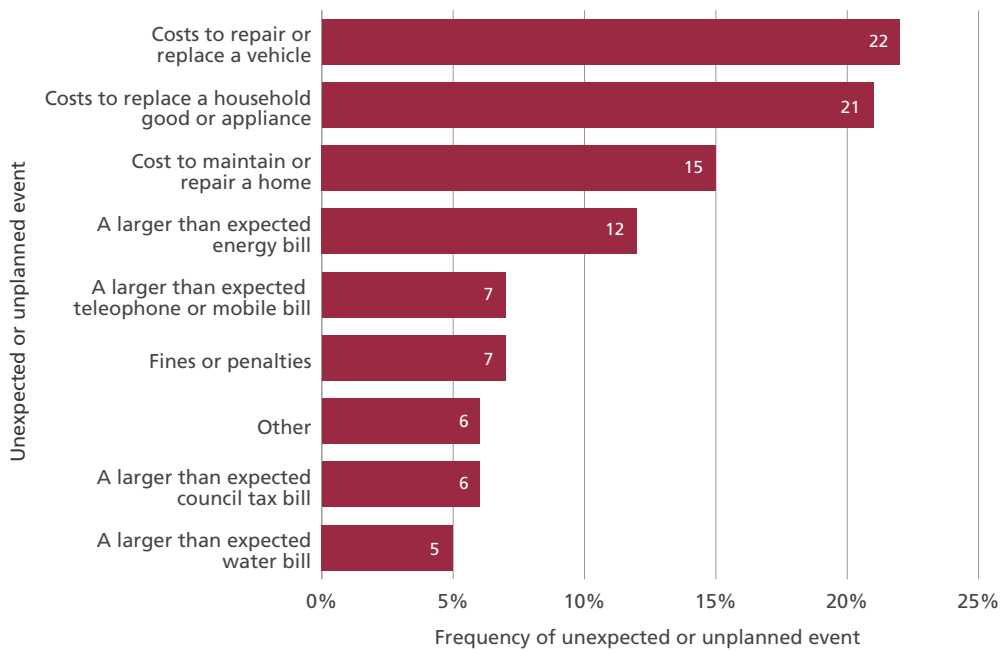
49 Department of Business, Innovation, and Skills, *Interim Evaluation of the National Illegal Money Lending Projects – Summary*, p. 7

50 Resolution Foundation, *The Covid certainty: more savings for the rich, more debt for the poor*, 2021

51 Money and Pensions Service, *The UK Strategy for Financial Wellbeing 2020–2030*

52 Resolution Foundation, *Living Standards Audit 2021*, p. 32

Figure 10. Frequency of unexpected or unplanned expenses



Source: Citizens Advice<sup>53</sup>

The combination of low financial resilience and large unexpected costs provides a dangerous gateway for those on the edges of financial security to trip into the credit underworld, especially when they have used all of their available credit options.

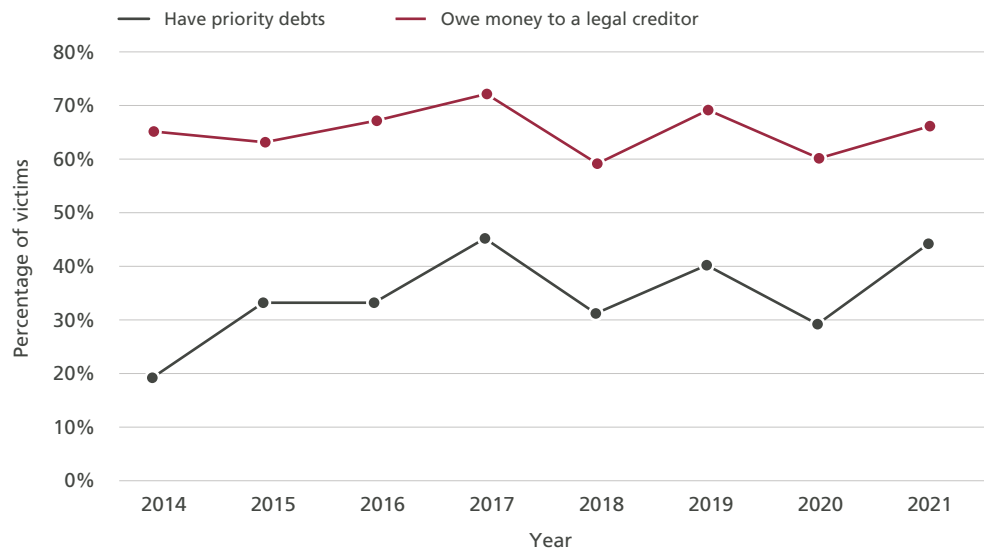
## 4.2 Indebtedness

Hidden debt in the form of money borrowed from illegal lenders is often interwoven with more conventional forms of problem debt. Victim data shows that those who have borrowed from illegal lenders are also often mired in debt to regulated or legal creditors. A high proportion of this is money known as ‘priority debt’ by money advisers (such as rent or council tax arrears), which carries more serious consequences for non-payment than, for example, consumer credit debt.

Victim data show that two thirds (66 per cent) of victims in 2021 owed debt to a regulated or formal creditor and almost 45 per cent have priority debts. Notably, levels of indebtedness are highly consistent across income groups or in relation to benefits status. This is likely reflective of the fact that most victims will only turn to a loan shark as a last resort. In other cases, victims fall into debt as they prioritise repayments to a loan shark.

53 Citizens Advice, *Walking on Thin Ice: The cost of financial insecurity*, 2018, p. 14. *Ibid.*, p. 14

Figure 11. Percentage of victims that owe money to a legal creditor and owe priority debts

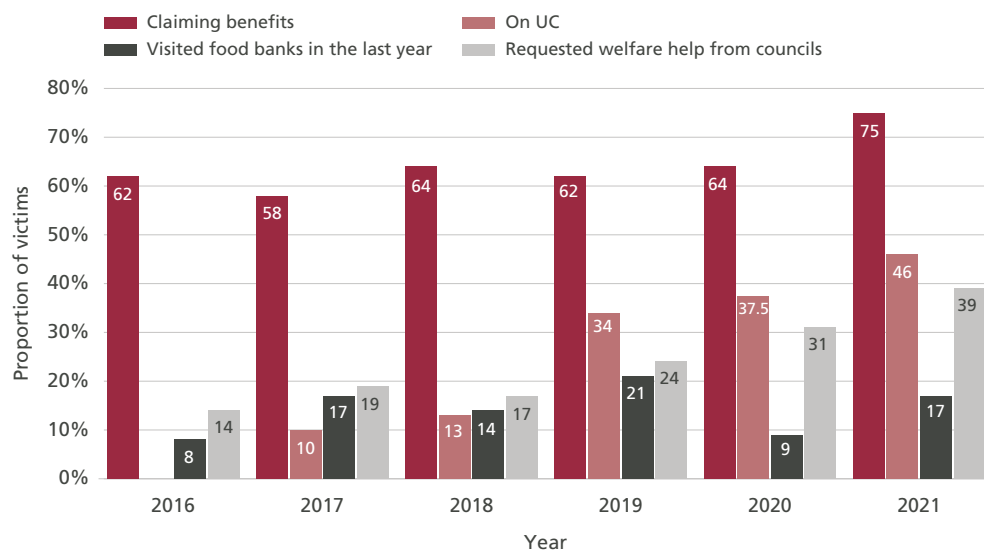


Source: Illegal Money Lending Team England

### 4.3 In receipt of benefits

Unsurprisingly, given the high prevalence of low incomes among victims of illegal money lenders, reliance on benefits is found commonly in the victim data. With the exception of 2017, over 60 per cent of victims each year report being in receipt of benefits, and this was the highest in 2021 at 75 per cent. In 2021, almost 40 per cent of victims said that they had used a foodbank in the last year.

Figure 12. Percentage of loan shark victims in receipt of benefits or other support



Source: Illegal Money Lending Team England

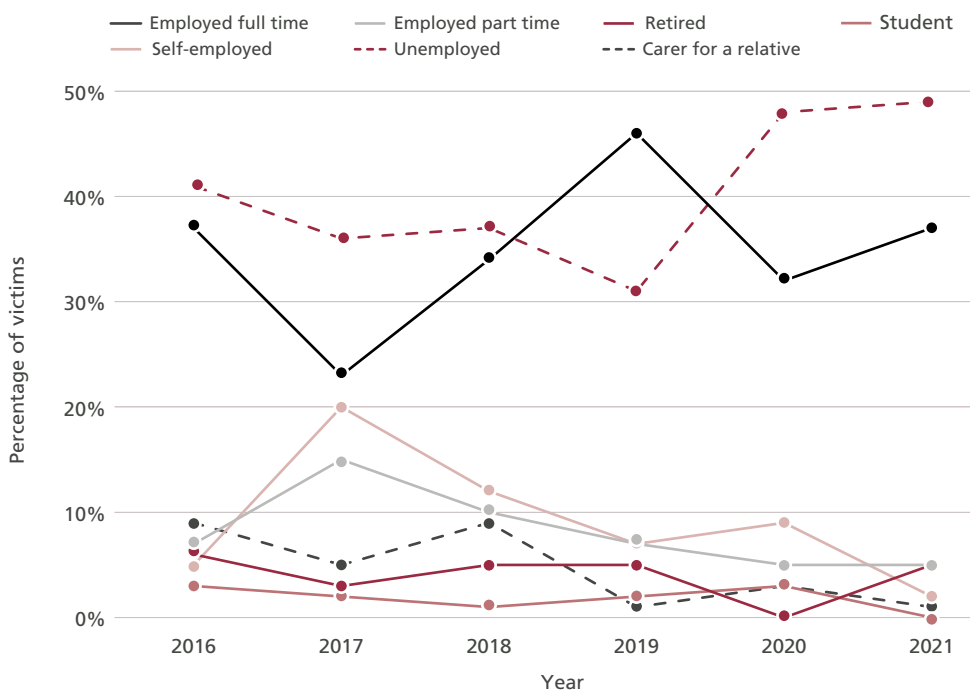


## 4.4 Employment

Historically, it has been found that those who borrow from an illegal money lender are out of work, with the last major study in 2010 finding that less than four in ten victims live in a household with at least one person in full time work.<sup>54</sup> Data collected by the Illegal Money Lending Team continues to show that unemployment is common amongst victims, with almost half of all victims (49 per cent) reporting that they were unemployed.

However, each year, data shows that a sizeable proportion of victims are in employment, often full-time. Indeed, the CSJ's own analysis found that 52 per cent of all victims since 2012 reported being in employment of some kind. In 2021, 37 per cent of the victim cohort were employed full time, remaining where it was in 2016 after a period of turbulence.

Figure 13. Employment profile of victims of illegal money lending



Source: Illegal Money Lending Team England

## 4.5 Housing tenure

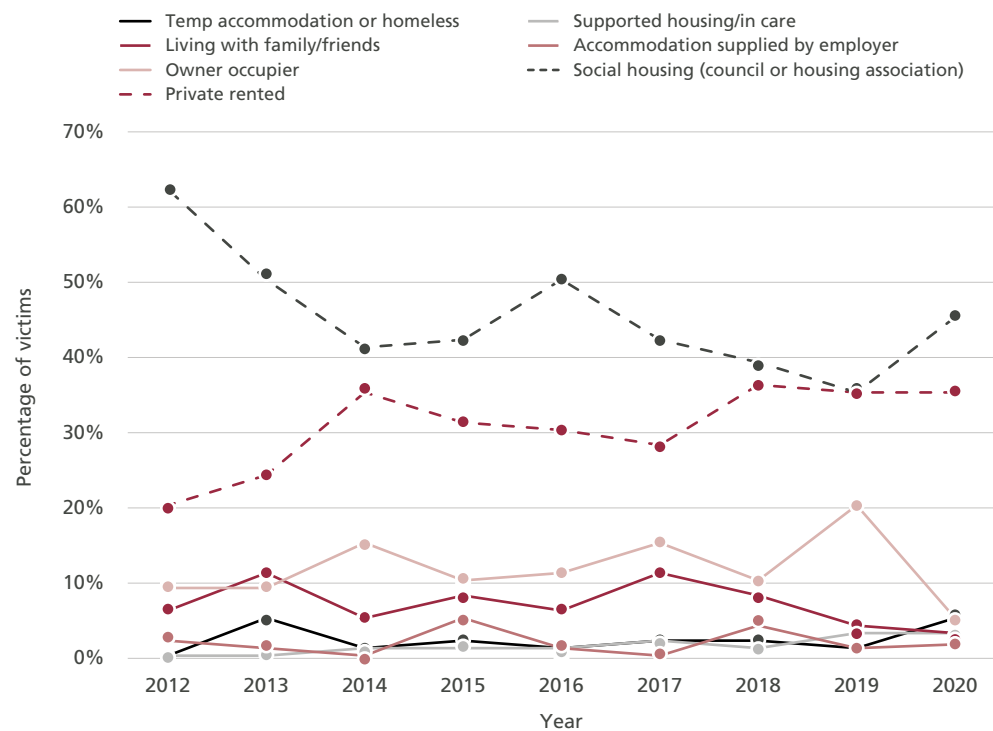
Illegal Money Lending Team data suggests that victims of illegal lending overwhelmingly live in social or private rented sector housing. In 2021, 48 per cent of victims lived in social housing in 2021, down considerably from the 62 per cent that lived in social housing in 2012. This seems to suggest that there has been a strong decline in the proportion of victims in social housing since the beginning of the decade, despite a recent rise, as the Department of Business, Innovation, and Skills also placed the proportion of victims using social housing at 66 per cent in 2010.

<sup>54</sup> Similar to the FCA statistic of 37% of those who borrowed from loan sharks working full-time.

This correlates with wider trends showing the rising proportion of people on low incomes living in the private rented sector.<sup>55</sup> Indeed, the prevalence of victims living in the private rented sector has risen from 21 per cent in 2012 to 32 per cent in 2021.

As shown in Figure 15, owner occupiers have risen as a small but significant minority of victims, reaching as high as 20 per cent in 2019 – although the proportion of owner-occupier victims fell in 2019 back to historically typical levels of around 5 to 10 per cent on average.

Figure 14. Illegal money lending victim profile by tenure



Source: Illegal Money Lending Team England

## 4.6 Health and disability

Illegal money lenders target some of the most vulnerable people in society, and that includes those with health conditions.

As is well documented, health and debt have a close-knit relationship that leave people with profound financial worries. This relationship is two way. For thousands, financial concern cause anxiety and poor health, while poor health also leads to financial issues.

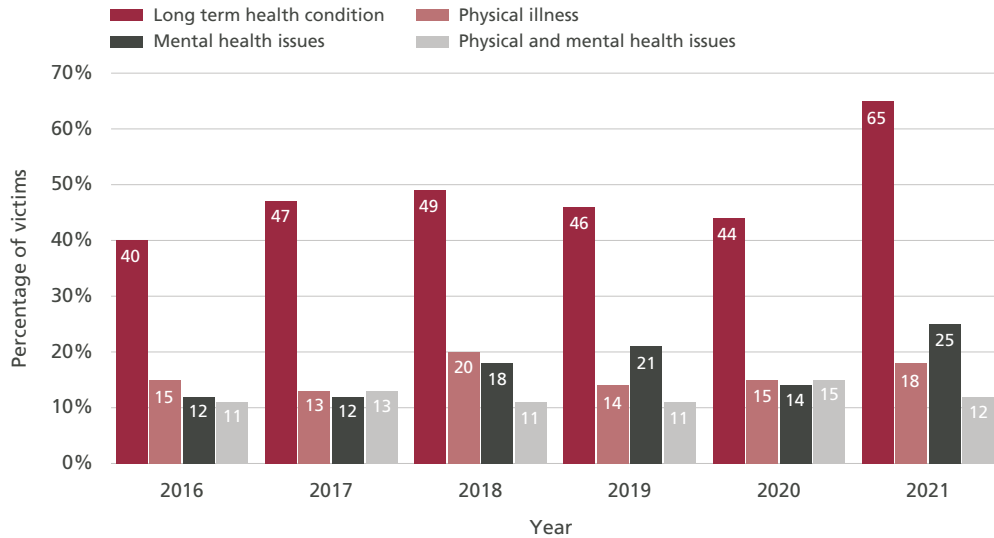
55 Centre for Social Justice, *Exposing the Hidden Housing Crisis: Public attitudes to 'affordable housing' and housing policy*, 2021

Disabled people face higher costs related to their disability. Research by the Extra Costs Commission found that individuals with a physical disability spend almost £300 per week on disability related costs.<sup>56</sup> Because of these extra costs, disabled people are more likely to turn to pay day loans to help with everyday living.<sup>57</sup>

We know that victims of illegal money lending often report having a health condition of some kind. Both the Financial Conduct Authority and the Illegal Money Lending Team England find this to be the case. According to the FCA, 15 per cent of those who borrow from an illegal lender have a physical illness, similar to figures from the Illegal Money Lending Team, and 12 per cent had a mental illness, somewhat lower than the quarter of victims in 2021 who reported having a mental health issue to the Illegal Money Lending Team.<sup>58</sup>

Indeed, recent figures from the Illegal Money Lending Team show that 65 per cent of victims reported having a long-term health condition, a huge jump on the previous year.

Figure 15. Health profile of illegal money lending victims



Source: Illegal Money Lending Team England

Victims with health conditions also face stronger barriers to employment and therefore can struggle to cover their own cost of living. CSJ analysis shows that over 65 per cent of those with a health condition who borrowed from an illegal money lender are unemployed. Loan sharks are also known to target those with health issues because of their vulnerable characteristics and perceived manipulability. For instance, we’ve heard several cases where a loan shark has targeted someone with a physical health condition and exploited their inability to defend themselves.

56 Extra Costs Commission, *Driving down the extra costs disabled people face: final report*, 2015  
 57 Scope, 2014, *Priced Out: ending the financial penalty of disability by 2020*  
 58 Financial Conduct Authority, *Shining a Light*, pp. 18–19

For others, it is the financial concern that causes profound anxiety and poor health. 1 in 2 British adults with a debt problem has a mental health problem, and, tragically, 100,000 people in problem debt attempt suicide every year.<sup>59</sup>

As has been shown, health and debt have a two-way pattern of causation, and both psychological and physical health is affected by debt. These health types are intermediated by two variables: debt repayment structure and worry, both of which have been found to have a significant effect on health-seeking behavior.<sup>60</sup> Indeed, both of these variables increased the portion of a sample identified as possessing a household income below the poverty line and are described by the authors as 'hard-to-open gateways' out of poverty.<sup>61</sup>

## 4.7 Conclusion

Notwithstanding the limitations of the data, the picture that emerges from this analysis is a victim cohort marked by multiple disadvantages.

Large proportions of victims report low household incomes, unemployment, receipt of benefits, and existing problem debt. All are indicative of the financial pressures on those who fall into the hands of loan sharks. Less stable (and more expensive) housing in the private rented sector, paired with high levels of poor health, contribute further to the difficulties many victims face. While it also emerges that loan sharks do not prey *solely* on those facing these disadvantages, with homeowners and more affluent individuals also at risk, it is clear that the existence of illegal money lending in Britain today is a matter of deep social injustice.

Still, the data on the characteristics most likely to be found among victims tell only one side of the story. This does not articulate the lived experiences that victims endure, nor does it fully explain why victims begin borrowing and how they subsequently become entrapped. In the following chapter we turn our attention to these important questions.

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59 R Jenkins, D Bhugra, et al, 'Debt, income and mental disorder in the general population', *Psychol Med*, 2008, pp. 1485–1493; Money and Mental Health Policy Institute, *A Silent Killer: Breaking the link between financial difficulty and suicide*, 2018, p. 5

60 University of Sheffield, *Debt and Health*, 2018

61 University of Sheffield, *Debt and Health*, 2018

## chapter five

# Illegal money lending: Reasons for borrowing

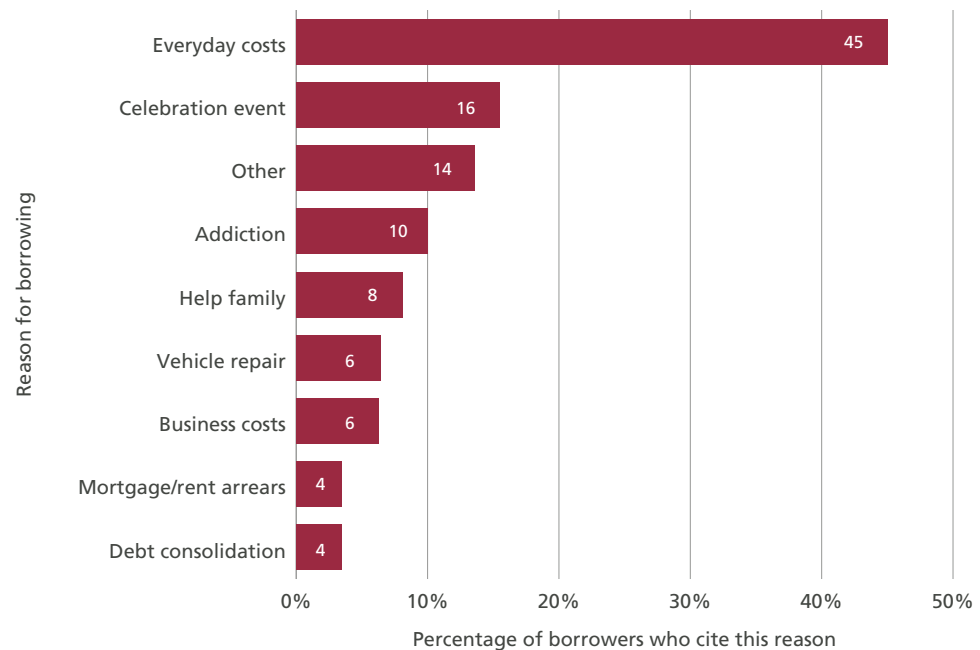
As we have seen, those who fall victim to loan sharks are often among the most vulnerable people in society. Low incomes, unemployment, a reliance on benefits, and long-term health issues paint a picture of deprivation on multiple fronts. But why do victims start borrowing – and what do they use the money for?

In this chapter, we use data from the Illegal Money Lending Team England and interviews with victims and debt advisers to explain why people borrow. The best survey data available suggests that, while there are yearly fluctuations, the overwhelming reason given by victims of loan sharks for borrowing every year is to cover the everyday cost of living – including household bills and essential electrical goods.

Almost half of victims (45 per cent) cite everyday costs when asked why they borrowed, with utility bills, such as gas and electricity, highlighted as common issues. Everyday costs were cited almost three times as much as the second most cited reason (celebration events). Other commonly cited reasons for borrowing were addiction, at just under 10 per cent of all victims, and helping family at roughly 8 per cent. Other reasons also came up, such as borrowing to pay for a funeral or healthcare, both of which comprise most of the 'Other' category.

We explore these reasons for borrowing in more detail below.

Figure 16. Reasons cited for borrowing from a loan shark



Source: CSJ analysis of Illegal Money Lending Team England data (n = 860)

## 5.1 Everyday costs

Previous research has suggested that individuals primarily borrow from a loan shark because they suffer a sudden income shortfall or unexpected cost and do not have sufficient savings or credit options to support themselves. And this is very often the case. Borrowers, as we have seen, typically have extremely low financial resilience – in 2010 up to 90 per cent of victims said that they would find it difficult to raise £200–£300 in an emergency.<sup>62</sup> One study found that 82 per cent of those who used an illegal lender did so because they felt they had no credit other options.<sup>63</sup>

However, according to the latest data, it becomes clear that the picture is more complex than borrowers solely turning to illegal lending while at crisis point. Data analysed by the Centre for Social Justice shows a sizeable proportion of victims using the money they have borrowed to pay for the everyday cost of living (see Figure 16 above). We have heard victims consistently reporting the purchase basic essential items, such as food, clothing, school uniforms, as well as unexpected or emergency costs, such as expensive household electrical goods.

For example, one victim, a single mother who was introduced to a loan shark via a friend, borrowed £60 to purchase a pram for her new-born baby. She was harassed by the loan shark who visited her while she was in hospital, and who eventually stole her bank card. The victim ended up paying back £1,000 for the loan.

<sup>62</sup> BIS, Summary Report of Illegal Money Lending, p. 7

<sup>63</sup> DTI, Illegal Lending in the UK

Another victim who borrowed £300 for household bills paid £100 a week for several months until they were supported by the Illegal Money Lending Team. Despite paying considerably more than the amount borrowed, the loan shark continued to demand payment and vandalised their home by throwing a brick through the window when children were present.

These stories highlight the basic cost-of-living crisis that many victims face, a problem that we know is getting worse. Polling by YouGov published in October 2021 shows that 50 per cent of Britons said they could not afford a £50 increase in their monthly cost of living bills, rising further to 67 per cent and 76 per cent among those with the lowest household incomes at £10,000–£19,999 and under £10,000 respectively.<sup>64</sup>

These groups are prime targets for loan sharks. Already, an increasing proportion of victims report visiting a food bank in the last year, rising from 14 per cent in 2016 to almost 40 per cent in 2021. Higher levels of inflation and increases in the cost of gas and electricity will hit the poorest families the hardest since these costs already make up a greater proportion of expenditure for those on low incomes.<sup>65</sup>

### Becky's story\*

Becky, a 44 year old mum, moved into a new area in Tees Valley and was visited by a friendly woman who welcomed her into the area.

This woman came round to say hello to introduce herself and welcome us to the area. She seemed nice.

Unemployed and struggling to afford school uniforms, she borrowed £50 and had to pay back £100. Without any access to a bank account, credit card, or other credit, she accepted.

I had the £50 in 15 minutes. It seemed like easy money but I didn't realise the dangers.

Becky became a 'good customer' but when she struggled to pay back £100 for Christmas gifts, the loan shark started adding late fees.

The first time I was in arrears she added another £150 on top. So you could borrow £50 – one week, and owe £100 the next. But if you couldn't pay it would be £250 in a fortnight, £400 in three weeks.

The most I ever owed was £1,050. She was taking hundreds a week off me and I had to use food banks.

Becky was threatened with a visit from the 'Big Man' and the loan shark texted Becky's kids to tell them she 'couldn't stop' the Big Man unless repayments were made.

Tell your Mam to get in touch or I'm not going to be able to stop them coming.

Becky tried to end her life.

\*Anonymised

64 YouGov, *Cost of living: can Britons afford rising bills?*, 2021

65 The Institute for Fiscal Studies, *The cost of living crisis – who is hit by recent price increases?*, 2021

## 5.2 Addiction

Addiction can be a powerful factor that is exploited by loan sharks to draw their victims in, and just under 10 per cent of victims cited this as their reason for borrowing. We have seen this to be the case in both addictions to drugs and gambling.

### 5.2.1 Drugs

According to the Office for National Statistics, approximately 3.4 per cent of adults aged 16–59 in the UK took a Class A drug in 2020, totalling about 1.1 million people.<sup>66</sup> For some, the use of drugs becomes an addiction requiring a consistent supply of quick cash to fuel it. Addiction can therefore become a route into borrowing money from illegal money lenders due to the fast-paced nature of lending. Borrowers find themselves borrowing small amounts to buy drugs and quickly become obliged to pay back that amount with a high rate of interest.<sup>67</sup>

Sometimes, I'm not kidding you. We're talking about £10 or £20 round here ... Drug addicts would be going in on a Monday and he's borrowed £20 and when they got their benefits on a Thursday, they'd pay him back £40.<sup>68</sup>

For some, this can get worse. When borrowers find themselves unable to pay, lenders demand services in kind and victims can find themselves being dragged down into the illegal underworld, delivering drugs for the lender.<sup>69</sup>

A young man from a good background had started taking drugs and got into a cycle of debt. Consequently, he ended up running drugs for the lender and got sucked deeper.<sup>70</sup>

In another case, a 32-year-old man on the south coast of England had a drug problem and he found himself in debt to a sum of £6,000 to his dealers. Unable to pay, he was 'cuckooed' when criminals seized his council flat while he was away to harvest marijuana. When discovered, the police seized drugs with a street value of at least £7,500. He was handed a 10-month jail term suspended for 18 months and told to complete 12 rehabilitation days.<sup>71</sup>

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66 Office for National Statistics, *Drug misuse in England and Wales: year ending March 2020*, 2020

67 Department of Business, Innovation, and Skills, *Interim Evaluation*, p. 27

68 BIS, *Interim*, p. 27

69 Financial Conduct Authority, *Shining a light*, p. 8

70 Financial Conduct Authority, *Shining a light*, p. 8

71 The Portsmouth News, *Scary loan shark dealers' forced Portsmouth drug addict to turn flat into £22,500 cannabis factory*, 2020



There was one case where a couple had used a loan shark for household bills and a bit of recreational drug use. When they broke up, the loan shark kept pursuing her for the money and threatened to go to her employer's and her kid's school. He texted her saying he was going to send someone round to show her a 'good time' and that he meant business. She was so scared that she emailed herself a letter entitled 'If anything happens to me tonight, this is what happened.' Now she's free of the lender she's able to engage with a drug support charity and save again. She finally feels like she's in the driving seat.

**Team Member, Illegal Money Lending Team**

### Abby's story\*

Abby lives in Yorkshire, and she struggles with a crack cocaine problem. She had previously been drug free, but her long-term boyfriend had been an intravenous heroin user since he was a teenager and unfortunately he died of it. After years of helping him get clean, her loss was huge. A large photo of her boyfriend sits on the mantelpiece showing a happy time when drugs hadn't completely taken over his life.

Abby characterises her drug use as a way to escape the mundane reality of her life and temporarily block out her grief.

Abby had heard from her boyfriend that she could borrow money and buy crack from a local shop. Abby began borrowing and left her cash card as security, which the lender returned when her benefits went in. She always paid back double what she borrowed and random charges added by the lender when he felt like it.

Abby contacted the Illegal Money Lending Team when she became frustrated at the amount of money – both in cash and by bank transfer – that she was paying to the loan shark as well as his frequent requests for a blow job when she went into the shop.

She is aware of a number of other illegal lenders operating in the area and mentions that trading sex for drugs isn't uncommon.

Abby continues to work towards getting off crack and regularly attends a day centre to try to stop using and get her kids back. She's hoping to go to a residential treatment centre to establish her sobriety, get into work, and provide a settled home for herself and her children.

\*Anonymised

### 5.2.2 Gambling

Gambling additions can be another feature among those who are exploited. The Illegal Money Lending Team estimates that a gambling addiction made up 5 per cent of borrowing amongst the 2021 victim cohort.

Previous research reported one victim, who was employed with a reasonable salary, who borrowed to fund his gambling addiction after he had spent the money his mother had given him. When he failed to repay, his car was set on fire, and he was forced to leave his home.<sup>72</sup>

<sup>72</sup> Christians Against Poverty, *Christians Against Poverty research into illegal lending in Northern Ireland*, 2019

Other examples demonstrate purposeful exploitation by the loan shark. One case in Oldham found two loan sharks stalking casinos to offer immediate cash loans.<sup>73</sup>

### Harry's story\*

Harry was a gambling addict and he was introduced to a loan shark by his friend because he wanted to borrow money to win back what he'd lost and more. After asking to borrow £1,000, Harry's phone rang and he was offered £500 and had to pay £1,000 back.

The money was transferred to him via bank transfer. After paying it back, he could borrow what he wanted. He soon owed over one thousand pounds a month.

After the loan shark went to prison for other criminal activities, Harry kept paying. Shortly after, he lost his job. Not long after, the loan shark's family members found Harry and told him he had to keep paying.

If he paid on time, he was treated well. If he missed a payment, he was threatened.

*They threatened to tie me to the back of their car and drive around with me behind.*

Harry believed he had borrowed about £6,000, but the loan shark claimed he owed £27,000.

*I've suffered with my mental health, considered and attempted suicide on a number of occasions. They've said I wouldn't need to top myself, they'll do it for me.*

\*Anonymised

### Oldham casino lending

Loan sharks can often be predators who prey on vulnerable people and their addictions. In one case, two lenders stalked casinos to ensure they were in a position to offer immediate loans of £1,000 or seize repayments if a borrower was winning.

Loans were rented out at £300 for every £1,000 borrowed until the capital loan could be repaid. Warrants were executed at the lenders' home where electronic devices and more than £70,000 in cash were seized. Together, the lenders were said to have received £200,000 in capital and interest repayments on loans.

73 Manchester Evening News, *Loan shark made a fortune preying on gamblers at casinos. Now he's been ordered to pay some of it back*, 2017

### 5.3 Celebratory events

Celebratory events also feature heavily in borrowing, particularly the cost of Christmas. On average, UK households spend 29 per cent more in December – equivalent to £740.<sup>74</sup> In polling conducted by YouGov, over a third of Britons said that Christmas gets more difficult every year, and this difficulty is felt most acutely by the financially distressed and those considered over-indebted. (Over-indebted is defined as Britons who are three months behind on their bills/financial commitments or more in the last six months).

Over three in five of the over-indebted said that the cost of Christmas makes it all too stressful and about half said that they struggle to enjoy Christmas, as they are worried about how much they are spending. Perhaps most worryingly of all, those in the most financial difficulty were the most likely to say that they would borrow to cover the cost and the least likely to say that they had saved throughout the year, so they didn't find Christmas stressful.<sup>75</sup>

The expectation to spend while under significant budgetary constraints can lead to significant stress. Half of over-indebted Brits say that Christmas will make their debts worse.<sup>76</sup> Indeed, recent CSJ polling shows that 15 per cent of adults in the poorest households were worried about falling into unmanageable debt because of the cost of Christmas.<sup>77</sup>

Despite this, Christmas will not be cancelled. Almost 70 per cent of those who are over-indebted say that cancelling Christmas is not an option, a proportion only slightly higher than the general public.<sup>78</sup> The pressures of Christmas can cause vulnerable people to be targeted and exploited by loan sharks.

#### Ged's story\*

Ged had not long split up from his long term partner and they were sharing custody of their 7-year-old son Charlie. He had moved out of the family home into a rented flat and was in the process of making it homely for him and Charlie. Working as a courier, Ged was struggling to get by and was just about managing financially. It was a big change from sharing the household chores and the bills to paying them all.

In the run-up to Christmas, Ged had been offered more hours at work which he happily took as he wanted to give Charlie a brilliant Christmas as all would be a little bit different this year. Charlie had circled almost everything in the Christmas catalogue and Ged wanted to give him as many surprises as he could. Ged also knew that Tom his supervisor at work had lent some of the other lads a few quid to top-up for Christmas and saw no harm in borrowing £500.

It didn't have to be paid back until January and he would have his Christmas wages by then. Ged thought that the double bubble repayment was a lot, but Christmas was really important for him and Charlie this year.

<sup>74</sup> Bank of England, *How much do we spend at Christmas?*

<sup>75</sup> YouGov, *How much are people spending for Christmas 2021?*, 2021

<sup>76</sup> *Ibid*

<sup>77</sup> Centre for Social Justice polling

<sup>78</sup> YouGov, *The average Brit spends £1,116 at Christmas*, 2019

Christmas came and went and Charlie was thrilled with all the toys. With all the excitement going on Ged had forgotten that he had to make his rent payment and the landlord had been on the phone wanting the money. Even though Ged had gotten more money from his wages in December with the cost of Christmas things were tight. Tom wanted the full £1,000 loan repaid so Ged was forced to borrow another £500 from Tom to make sure he could pay all the bills and also help Charlie's mum out.

Ged's January wages were back to the normal amount as all the extra hours were now finished. Financially things were not looking as healthy. Ged had all his regular household outgoings plus Tom's £1,000. He offered Tom £500 as a first payment and said he would give him the rest at the next payday. Tom was not pleased and demanded £1,000 in addition to the £500 as its double again and told Ged he wouldn't have any more pay days if he did not pay up.

Ged found himself not being able to keep up with his rent payments as he had to keep on handing over more and more money to Tom he just never had enough to repay the full £1,000 back and so the amount he owed Tom was going up and up. Tom had also told Ged that he would be taking Charlie's Xbox that he had got him for Christmas if he didn't get the money, which would devastate Charlie. Everything was a constant worry, Ged couldn't sleep and he was massively concerned that if Charlie's mum found out she would go mad and may stop Charlie from staying over at the flat.

Ged kept on handing over more and more money to Tom and avoided calls from his landlord. He stopped paying the TV Licence as he thought it would be ages before they caught up with him. He was working for nothing. Everything was going to Tom.

Charlie's mum knew something was wrong and Ged broke down to her and told her about Tom and all the other bills he had unpaid. She made Ged an appointment with a local debt advice organisation who went through Ged's income and expenditure and helped Ged realise that what Tom was doing was illegal. Ged accessed help from the Illegal Money Lending Team.

Once I made contact with the team it was such a relief to talk to someone that understood my situation and I felt as though I now had options and could see a future for me and Charlie. I am so grateful for their support and thankful that Charlie's mum who I thought would kill me was also there for me. I now save some of my wages every month through a deduction scheme in work which will be handy for next Christmas. Work have been really supportive Tom no longer works in the warehouse where I am based and I am told has undergone some disciplinary action. Never think you are on your own the illegal money lending team are there to help.

\*Anonymised

The associated financial pressures of other celebratory events being exploited are not unheard of, however, and both weddings and birthdays have featured in several of our interviews with charities and agencies involved in tackling illegal lending.

They borrowed £1,500 to pay for their wedding and the debt just escalated and escalated until they owed about £8,000. He was threatened on his doorstep by one of the loan shark's associates who was carrying an axe.

**Team Member, Illegal Money Lending Team**

This one lady borrowed £600 for Christmas to cover costs and buy her little daughter some presents. She was paying repayments via the post office and the lender broke into her house on Christmas Day and stole them all and her TV.

**Team Member, Illegal Money Lending Team**

## 5.4 Vehicle purchase or repair

In 2021, around four per cent of victims cited vehicle purchases or repairs as their reason for borrowing from an illegal lender.<sup>79</sup> This can take multiple forms, but is usually related to work, such as requiring a vehicle to get to work or as part of the job, such as a taxi driver.<sup>80</sup>

Indeed, some loan sharks have been known to provide motor vehicles on credit. We heard of two loan sharks co-operating to facilitate this, and 18 sets of car keys were found by officers when one of their homes was raided. 13 of these were identified as relating to vehicles, which had already been sold to borrowers, but were retained to allow the lenders to continue to influence the victim and recover the car if the borrower defaulted.<sup>81</sup>

### Jay's story\*

Jay needed a car because he works as a taxi driver. He could afford the loan, but the loan shark kept arbitrarily increasing the interest rates. To pay off the interest, Jay worked 20 hours a day, 7 days a week.

Jay was beaten in-front of his wife, and the loan shark threatened to rape the women in his family.

His wife hid inside the house when he was out, petrified to leave.

**They are in control of my life.**

\*Anonymised

## 5.5 Mounting pressure: the pandemic and cost-of-living crisis

It can often take several years for an illegal lender's victims to come forward. But given what we know about the characteristics victims typically display, it is likely that the pandemic has driven more people to illegal lenders.

The arrival of Covid-19 marked the beginning of a tumultuous time for the entire country, and it has been transformational for the personal finances of many across Britain. While much has been said about the savings that have been banked in response to working from home, this is not the story everywhere.<sup>82</sup> For many of those already struggling on low incomes, the pandemic has served to launch another salvo into their finances.

The furlough scheme provided a welcome safety net for many people, but those who lost their jobs during the crisis and those who were not covered by the scheme have suffered. 51 per cent of those who stopped working without access to the furlough scheme said that their incomes decreased a lot from their February levels during July to September 2020 period, compared to just 8 per cent of all UK adults and 14 per cent of employees on full furlough.<sup>83</sup>

79 Illegal Money Lending Team England

80 Financial Conduct Authority, *Shining a Light*, p. 8

81 Stop Loan Sharks, 'Quarter 1 National Newsletter'

82 *The Guardian*, 'Covid savings: Britain built up second highest level on record in early 2021'

83 Resolution Foundation, *Caught in a (Covid) trap*, 2021

The CSJ has encountered several victims who reported the pandemic as the reason they had turned to an illegal lender. One individual reported that they had lost both of their jobs during lockdown and had to borrow several thousand pounds to pay for household bills. They found themselves working two full-time jobs to pay off their illegal lender.

We also know that while those on high incomes faced decreasing costs and were able to save, those at the bottom of the income spectrum faced greater pressures, particularly if they had children. According to the Resolution Foundation, over half of people on the highest incomes with children said that their costs had decreased as a result of the pandemic, alongside almost three in five of those on the highest incomes without children. In comparison, the situation for those on the lowest incomes was very different, with just 29 per cent of those with children and under a third of those without children saying that their costs had decreased. Those on low incomes were therefore more likely to say that their spending had increased and less likely to say that their costs had decreased as a result of the pandemic.<sup>84</sup>

Increased spending demands have placed a considerable pressure on those on the lowest incomes, and, for some, this will have led to borrowing from an illegal lender. In other cases, the pandemic has disrupted people's businesses, and this too has led to them being forced to borrow.

We can expect this to get worse. The emergent cost-of-living crisis casts a looming shadow of financial anxiety. Polling conducted by Opinium for the CSJ suggests that almost 17 million people – that is, almost a third of the UK adult population – say that they are very worried about the cost of living crisis, rising to 42 per cent of those on the lowest incomes. The combination of pressures on household budgets, low financial resilience and increasingly limited credit options is liable to create a perfect storm in which people are driven towards exploitation.

### **Brenda's story\***

Brenda was an online teacher when her husband died. Soon after, her mother died too. Needing help, Brenda's friend told her that her boyfriend lent money and offered to help her secure a loan. Having suffered a bankruptcy, Brenda couldn't borrow legally. She borrowed £3,000 and was told she had to pay a monthly interest fee of 20 per cent until she could pay back the capital sum. She was paid the money in cash. When she asked to pay via bank account, she was told the payment could only be in cash.

When covid restrictions were introduced overseas, Brenda saw a considerable decline in her customer base and struggled to repay. When she asked to pay £400, the lender threatened to add £200 for each day she was late. Her lender came to her house. When Brenda sought help from the police, they told her the debt was a civil matter, but referred her to Stop Loan Sharks.

Brenda kept repaying while the loan shark was investigated. She feared for her safety – worried about being assaulted. Now he's gone, she can live her life.

\*Anonymised

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84 The Resolution Foundation, *Pandemic Pressures*

## 5.6 Turning to a 'friend'

Loan sharks are almost always a lender of last resort because victims cannot access credit elsewhere, and many victims turn to them as friends. Indeed, a common theme expressed in a number of these cases is the closeness of the shark to the lender. 61 per cent of victims say that they knew the lender before borrowing, and 56 per cent of victims said that they considered the loan shark to be a friend before they borrowed.<sup>85</sup>

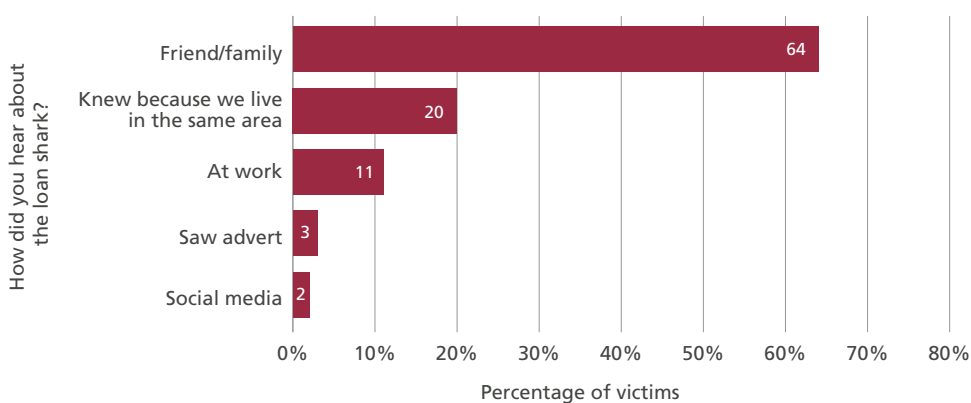
These figures may seem high, but they are not surprising given how victims tend to meet illegal lenders with being introduced by friends or family, meeting them because they live in the same area, or meeting the shark at work cited as the three most common ways.<sup>86</sup> As Figure 18 below shows, approximately 64 per cent of victims say that they were introduced to the loan shark by a friend or family, making this option over three times as likely as the next most cited option: already knowing the loan shark because they live in the local area.

In some cases, victims say they have known the loan shark for near enough their whole lifetime and have been friends since school. It is only when they fell into financial trouble and their 'friend' offered to help them out that relations turned sour.

Often illegal lenders are well known to their victims, with some being former school friends. At the point at which these loans are taken out, it is often the case that no interest is mentioned and borrowers believe they are only going to pay back what they borrow. 'Mike' borrowed from someone he and his wife went to school with when he was 17, and ended up paying back £90,000 for a £250 loan over 17 years. The betrayal of someone he considered a friend added to the financial and emotional distress.

**Team Member, Illegal Money Lending Team**

Figure 17. How illegal money lending victims report meeting a loan shark



Source: CSJ analysis of Illegal Money Lending Team England data (n = 958)

<sup>85</sup> CSJ analysis of IMLT data

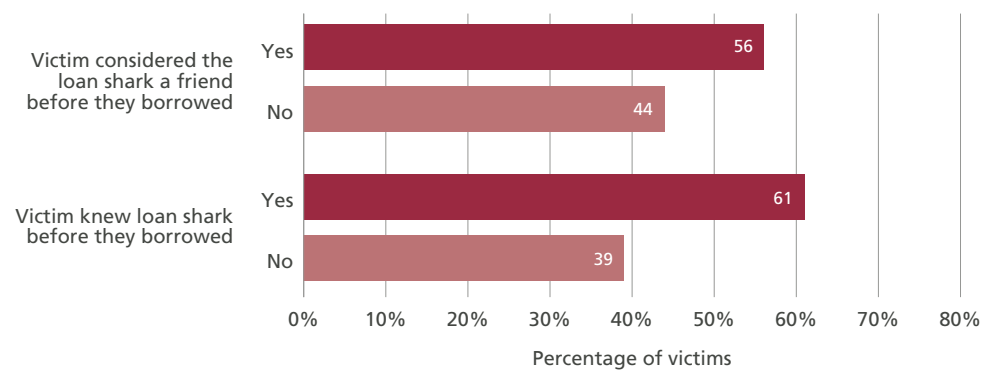
<sup>86</sup> CSJ analysis of IMLT data

In other cases, the loan shark specifically sets out to befriend potential victims with the intention of turning them into a revenue stream. Some victims have reported being befriended by a loan shark at a local community centre.

Befriending seems to be a primary lending technique. They offer support and a little extra money for luxury goods for special days. It can be birthdays, kids half term, special days out, or just getting a takeaway for the family as a figure gesture. This opens the door to ask for money for essential bills, like putting money on the electric or kids clothes.

**Debt adviser**

Figure 18. A majority of victims knew the loan shark before borrowing and a majority thought they were friends



Source: CSJ analysis of Illegal Money Lending Team England data (know before n = 932, consider friend n = 925)

I genuinely thought she was a friend helping me out, as I had just come out of a bad relationship and had nothing. She had me taking higher and higher loans, often to pay her back for smaller loans. Very soon she was taking all my benefits and leaving me with nothing.

**Ally, 39**

There was this one lady who knew this guy harassed people to pay him money...but she went to him anyway because she said it wasn't going to happen to her because she'd pay him back. She didn't realise victims are targeted.

**Team Member, Illegal Money Lending Team**



### Danao's story\*

Danao had recently moved to Britain to be a nurse. While working at the hospital, she met another nurse at who told Danao that she could relieve the pressure while she settled into her new life in Britain.

When I needed a friend, she was there.

Accepting the help from her friend, Danao borrowed £500 and agreed to pay £50 a week. She kept her debt a secret to protect her family's reputation. When Danao ran into financial difficulties and missed a payment, her friend threatened to spread rumors about Danao and the debt at work and on social media.

Reflecting on her experience, Danao realised her friend was a false one.

She showed me around. She lent me money. She's not my friend.

She knew how to control me because I told her. During friendly evenings at the community centre, I told her everything.

After reporting this to the Illegal Money Lending Team, the loan shark was investigated and prosecuted.

\*Anonymised

Lenders can sometimes be well known in the local area for offering loans and victims find their way to them in times of need. This is often the case on deprived estates where victims live in close proximity to their lender. We have heard numerous instances of victims living just doors away from their loan shark.

Michelle lived next door to a woman who befriended her when she moved in. She repeatedly offered her money and one day Michelle accepted. The lender turned nasty, using local youths to make Michelle's life a misery; throwing stones at her windows and making it impossible for her to get in her car and go to work. Michelle ended up fleeing the area.

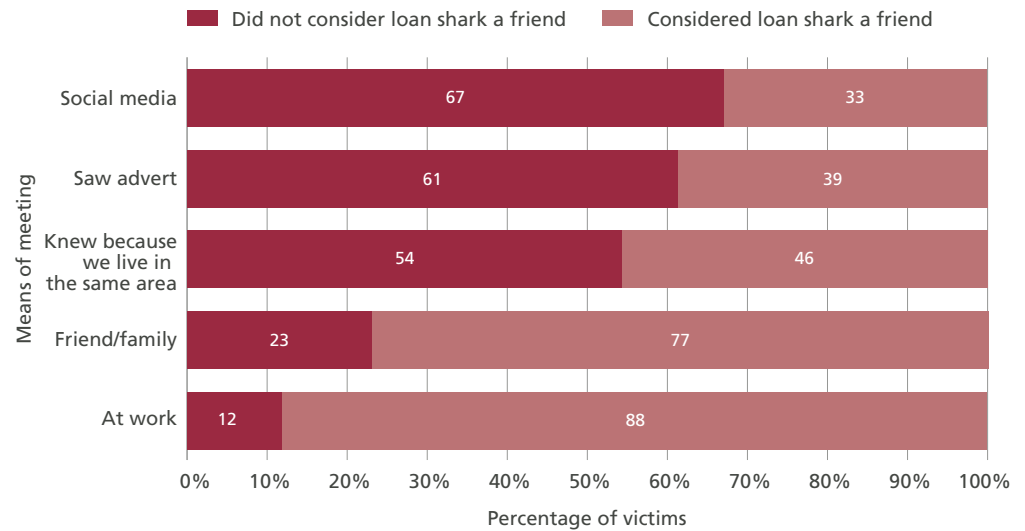
**Team Member, Illegal Money Lending Team**

Once connected, a loan shark will often attempt to invade a person's entire ecosystem of friends. This can result in groups of people becoming trapped in a vicious cycle of borrowing from a lender, as has been found in previous studies, but it can also result in victims being introduced to a loan shark by well-intentioned family members, colleagues, and friends.

This is reflected by the fact that a significant minority in all three personal referral categories do not consider the loan shark a friend when they first borrow. They know of the loan shark and may be living or working within close proximity of them, but they are not friends. Rather victims find themselves in desperate need that the loan shark offers to remedy. This suggests that there may be a distinction between being *referred* to the

lender by someone or *meeting them through* that respective source. Indeed, we've heard several examples of borrowers who meet victims while they're at a friend's house because the lender arrives to collect payment.

Figure 19. Many victims said they were not friends with the loan shark when they first borrowed, regardless of how they knew them



Source: CSJ analysis of Illegal Money Lending Team England data (n = 894)

Loan sharks are also well placed to identify a need and exploit it, and Danao's story describes one of the ways they do this. Another way can be by targeting children. In previous CSJ research, one debt adviser described a loan shark targeting their children's school. It was also highlighted that this was very much skewed towards deprived areas and 'troubled' housing estates.<sup>87</sup>

On one estate loan sharks were hanging around the school gate, handing out their details to the children as they left school, telling them to get their mums to ring them if they wanted new trainers.

**Andrew Bailey, Governor of the Bank of England<sup>88</sup>**

<sup>87</sup> Centre for Social Justice, *Uncovering Hidden Debt*, p. 9

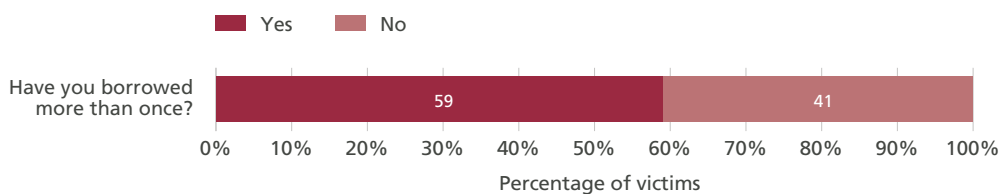
<sup>88</sup> Daily Mirror, *Shameless loan sharks lurking around school gates and targeting kids for Christmas*, 2018. [Andrew Bailey was chief executive of the Financial Conduct Authority at the time of publication.]

## 5.7 Stuck in a cycle

With high repayment costs and arbitrary increases in the amount owed, many borrowers find themselves borrowing repeatedly. There are several key reasons for this which have emerged in this research:

- The high cost of repayment means borrowers are required to borrow more just to stay afloat. This can often involve borrowing to repay the previous loan as well as taking a new amount to survive on.
- Living on a low income means that even if an initial loan is paid off, borrowers may face further everyday living costs that they cannot meet in the future, which leads them to continue borrowing from the loan shark.
- The loan shark induces the victim to borrow more by flattering them as a 'good customer', or offers them further loans for something they don't need.

Figure 20. Percentage of borrowers who say they have borrowed from a loan shark more than once



Source: CSJ analysis of Illegal Money Lending Team England data (n = 939)

As a result of these factors, victims can find themselves leveraged into a permanent income stream for a loan shark and gain a sense of dependency on their ability to obtain credit from them.

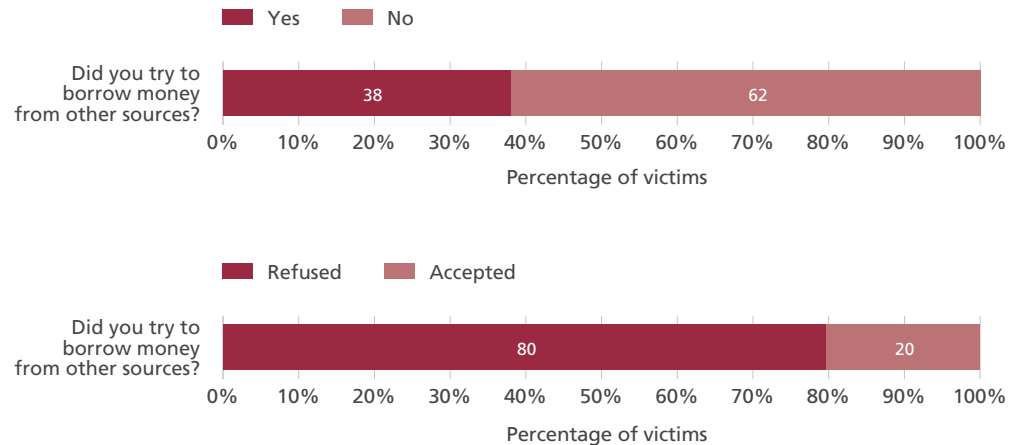
## 5.8 Lack of other credit options

A consistently recurring reason for victims turning to a loan shark is being rejected from a regulated credit option. Analysis of data from the Illegal Money Lending Team England shows that almost 40 per cent of victims had attempted to try to secure credit elsewhere, and four fifths of those were rejected.

In some cases, victims have reported saying that they believed the lender would charge them a lower interest rate than a legal credit company, and some even claim that no interest is charged at all, despite evidence to the contrary. Where victims do attempt to access credit, many seek it from multiple sources.

Victims regularly cite being unable to secure credit because of a poor credit score or a failure to pass an income and expenditure test. In other cases, being a recent arrival to the UK can mean that victims have highly limited access to credit.

Figure 21 and 22. Loan shark victims who do attempt to secure credit elsewhere are almost always rejected



Source: CSJ analysis of Illegal Money Lending Team England data (n = 860) (n = 289)

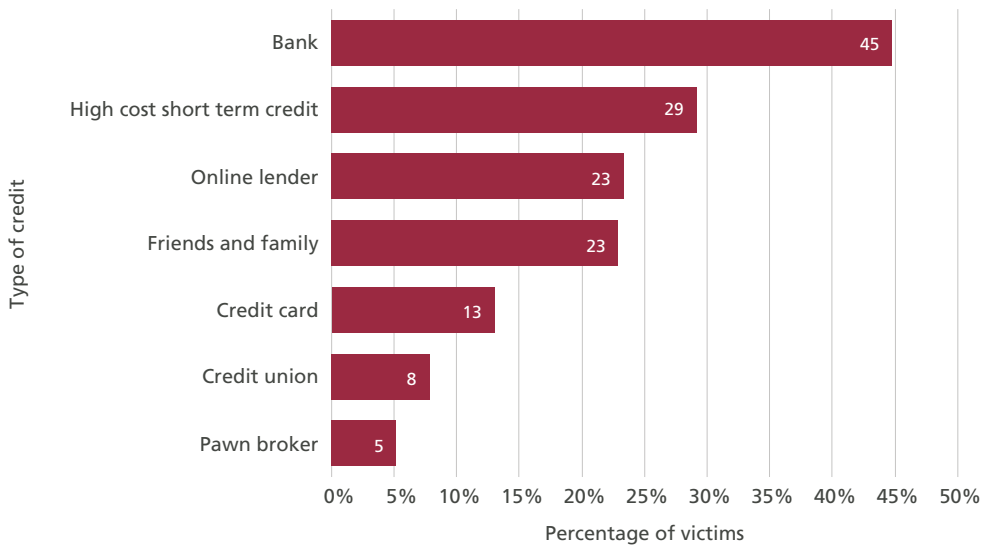
This is supported by previous research outlining the way many victims are completely cut off from mainstream credit options, while others avoid mainstream lenders because they expect to be turned down or because they find them too complicated to use.<sup>89</sup> Indeed, another reason for turning to a loan shark is that many victims already have some form of credit and have exhausted their credit options.

For the victims we have complete data for, we know that 81 per cent of those who were rejected from credit had other debts too. It is unsurprising, then, that many victims say that loan sharks perform a service. But where do victims seek regulated credit from?

New analysis by the CSJ shows that victims who do seek credit before they go on to borrow from an illegal lender typically turn to a number of other options beforehand. The most common location that victims report trying to access credit is from a bank, with about 45 per cent of those who attempt to borrow choosing this option. Over a quarter mention that they tried to access credit from a high-cost short-term credit provider, often citing pay-day or doorstep loans, and just over a fifth mention attempting to borrow from an online lender.

<sup>89</sup> Department of Trade and Industry, *Illegal Lending in the UK*, 2006

Figure 23. Victims who do seek credit, seek it from a range of sources



Source: CSJ analysis of Illegal Money Lending Team England data (n = 192)

This raises significant questions about ongoing changes in the consumer credit market.

### 5.8.1 The departure of high-cost credit providers from the market

Since 2016, the number of firms offering high-cost short-term credit has fallen by two thirds,<sup>90</sup> and the collapse of Amigo Loans, Wonga, and the closure of Provident Financials' doorstep lending arm mean that many familiar options are no longer present.<sup>91</sup> This represents a significant reduction in the market space for legal – although often exorbitantly expensive – loans that were often used for living expenses, just as loan sharks are.

**High-cost short term credit** is defined by the Financial Conduct Authority as unsecured loans of up to 12 months with an APR of 100% or more.

The departure of major high-cost credit providers in recent years will mean that potential victims seeking credit on the edge of the legal market will need other options.<sup>92</sup> Indeed, we heard considerable concern from voices across a range of sectors, including debt charities, that the loss of high-cost credit options will mean more people have fewer regulated credit options.

<sup>90</sup> Financial Times, *Crackdown on high-cost credit leaves gap that must be filled*, 2021

<sup>91</sup> Financial Times, *Provident to close UK's oldest doorstep lending business*, 2021

<sup>92</sup> The Guardian, *Wonga collapses into administration*, 2018; CityA.M, *Provident Financial to shut doorstep lending arm after 141 years as it crashes to loss*, 2021

For many, illegal lenders fulfill a basic need, and borrowers know this too. The last major study of illegal lending found that one in five users felt that lenders provide a community service and one in twenty went as far as to say that they had a positive impact in the community, by providing credit to those who could not borrow elsewhere.<sup>93</sup>

This highlights the need to fill a space left behind by the departure of high-cost lenders with low-cost, alternative lenders. This is a space that both low-cost alternative lenders and high-cost lenders claim to be able to fill.<sup>94</sup> A wider credit market will always have more capacity to service clients than a smaller one, and this ought to continue to feature heavily in regulators' minds.

### 5.8.2 The emergence of Buy-Now-Pay-Later

The Buy Now Pay Later (BNPL) industry, while still nascent, has seen rapid growth with an almost 2,000 per cent increase in traders offering the credit option since January 2020.<sup>95</sup> Buy Now Pay Later agreements are a way for consumers to purchase goods on credit and pay for them later. This might be through a regular, interest-free installment or after an interest-free period.<sup>96</sup>

Many firms have expressed strong concerns that users do not recognise the gravity of the product as a credit agreement. *Which?* found that users generally believe that BNPL products are a means of spreading payments rather than as a form of borrowing and consumers tended not to believe that they might struggle to repay the agreement.<sup>97</sup>

This is worrying in light of research which shows that, amid a meteoric rise in the number of users, a considerable number of people face late payment charges, and possibly even debt collection agency referral.<sup>98</sup> Research by the Centre for Financial Capability shows that over a third of 18–24 year olds who have used the product have been charged late payment fees, rising slightly further still for 25–34 year olds.<sup>99</sup> This highlights concerns surrounding affordability checks, which are lacking in stringency. A survey by Citizens Advice found that 61 per cent of BNPL users who missed a payment or made late payments had been refused another product and over half had been refused a credit card. This suggests that soft checks as they currently exist are not working.<sup>100</sup> This will loom large in the future as major credit reference agency TransUnion begins including BNPL borrowing on credit reports, with possible effects for consumer's credit scores.<sup>101</sup>

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93 Department of Business, Innovation, and Skills, *Interim Report*, p. 32

94 Financial Times, *Subprime lending and the fight against the sharks*, 2021

95 ITV, *Almost 2,000% increase in traders offering Buy Now Pay Later credit since 2020*, 2022

96 Money Helper, *What are Buy Now Pay Later purchases?*

97 Which?, *Buy now pay later – understanding and addressing the risks to consumers*, 2022, pp. 18–20

98 Citizens Advice, *Buy Now Pay Later: what happens if you can't pay?*, p. 2

99 Financial Times, *Buy now pay later boom fuels consumer debt concerns as transactions soar*, 2022

100 Citizens Advice, *Buy Now Pay Later: what happens if you can't pay?*

101 Which? *TransUnion to include 'buy now, pay later' borrowing on credit reports*, 2022

Perhaps most worryingly, 25 per cent of users in one survey reported that they used BNPL products because they could not otherwise afford the product.<sup>102</sup> While some may use BNPL products as a means of managing their money, it is important that they do so with the full knowledge of the consequences of default. The responsibility for this rests both on the respective company, by carrying out robust affordability checks, and on the user themselves to manage their money. The Government has already announced that it will regulate BNPL firms and the Financial Conduct Authority has taken initial steps to making contracts fairer.<sup>103</sup> However, there is still much more to do, and the FCA and the Treasury should continue to regulate BNPL firms in line with other credit options.

We return to the question of providing the alternative in Part Three.

## 5.9 Speaking up and getting out

The experience of living under the oppressive presence of a loan shark is complex. And illegal lenders can have a negative, ‘chilling’ effect on their community well beyond the individual directly involved in borrowing. Of those aware of the illegal lenders in their area, more than three quarters say that loan sharks have a negative impact on their community.<sup>104</sup>

The manipulation and intimidation which they deploy means that many victims never speak up out of fear. Unsurprisingly, almost 40 per cent of victims supported by the Illegal Money Lending Team say that nothing would have made them report the loan shark any sooner.

When victims do contact the Illegal Money Lending Team, they often only do so in extremis when the cost of repayment has reached breaking point or when coercion, intimidation, and in some cases even violence is deployed to enforce payment.

**It’s very important that victims are supported as soon as they present themselves in crisis. Too slow, and many will just slip away.**

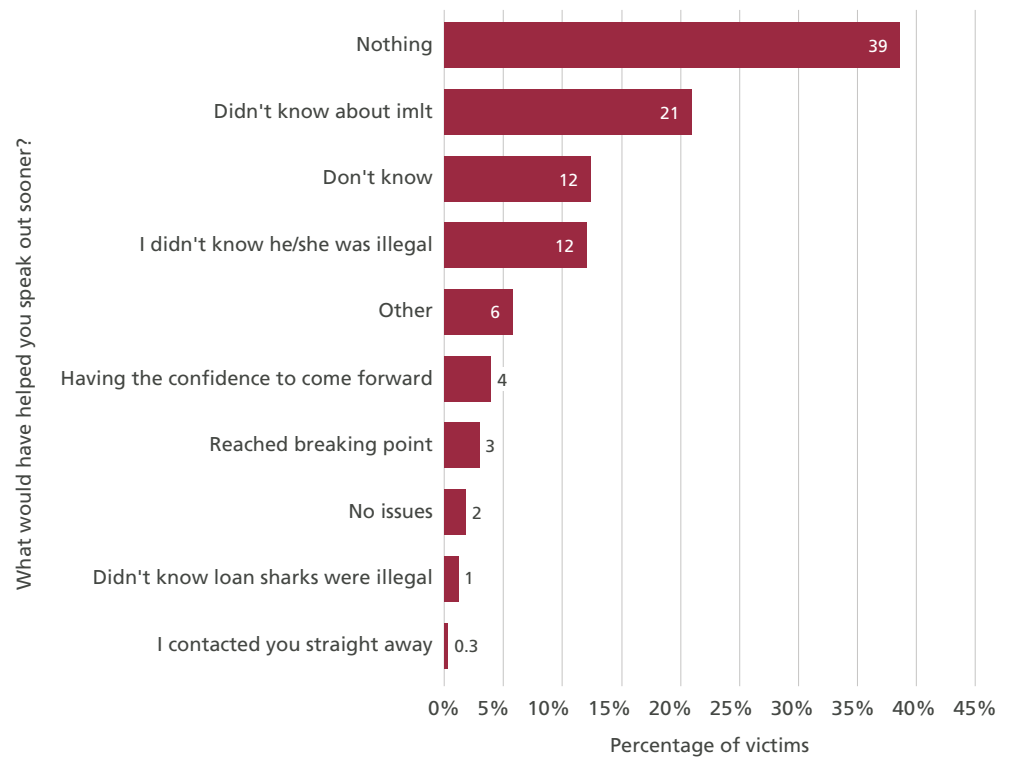
**Team Member, Illegal Money Lending Team**

<sup>102</sup> Citizens Advice, *Buy Now ... Pain Later?*, 2021. p. 4

<sup>103</sup> Financial Conduct Authority, *FCA secures contract changes for buy-now-pay-later customers*, 2022

<sup>104</sup> Department of Business, Innovation, and Skills, *Interim Evaluation of the National Illegal Money Lending Projects*, p. 32

Figure 24. Many victims say nothing would have helped them to speak out sooner



Source: CSJ Analysis of data collected by the Illegal Money Lending Team England (n = 606)

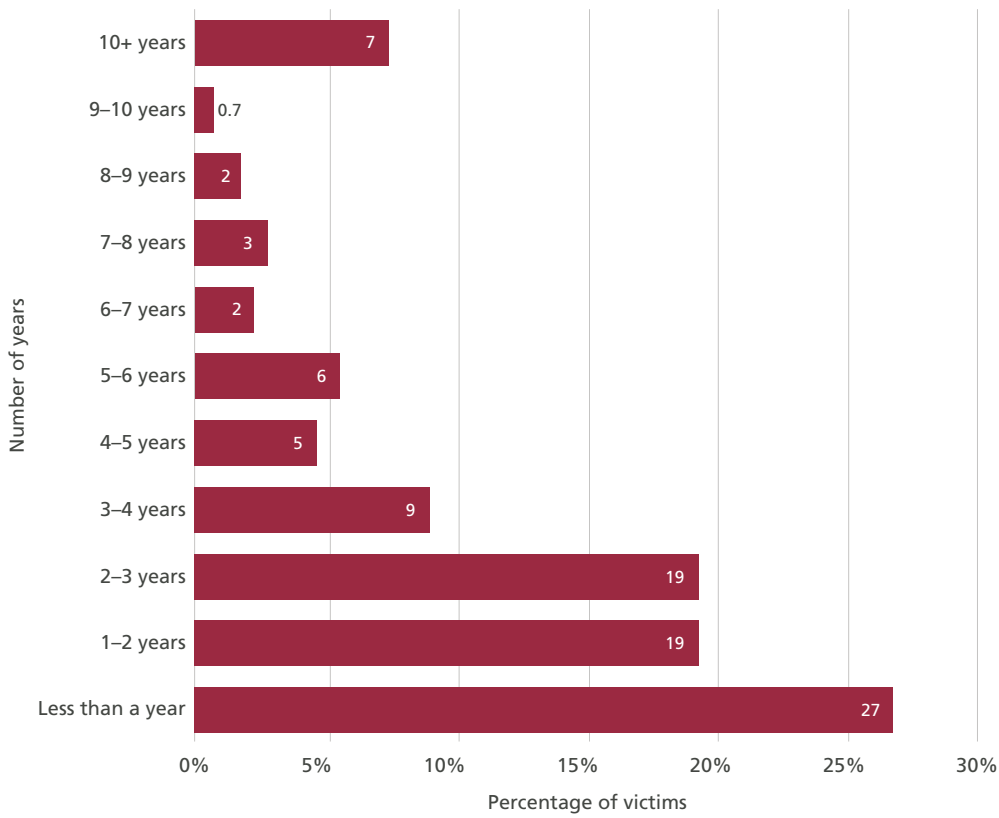
However, there also appears to be significant issue of awareness – both in relation to the nature of the crime and support available: 21 per cent of victims suggested that knowing of the Illegal Money Lending Team would have helped them to speak out sooner; 12 per cent of people said that they didn't know the loan shark's activities were illegal.

This highlights the considerable knowledge gap that exists among victims, which loan sharks know they can exploit. Without widespread understanding of illegal lending and the forms that it takes, victims will continue to be exploited.

Currently, we know that while a plurality of victims report borrowing for less than a year before they are supported by the Illegal Money Lending Team, a significant number report borrowing for far longer. Over a fifth of borrowers find themselves using an illegal money lender for five or more years, with close to one in ten saying that they have borrowed from an illegal lender for more than a decade.



Figure 25. Length of borrowing in years



Source: CSJ analysis of Illegal Money Lending Team England data (n = 576)

I've been living on a knife edge and worried that he will make threats. If it wasn't for you I wouldn't be here now. I was planning to end it all today but I am sitting here talking to you. You've saved my life.

**Linda, 53**

I just wish I had known about you sooner. I would have reported them.

**Erica, 36**

## 5.10 Conclusion

In Part Two, we have set out the profound disadvantage that many victims of illegal lending face in their day to day lives. Victims are overwhelmingly living on low incomes, struggling to meet everyday costs or respond to income shocks, and are typically burdened with existing debts to legitimate credit providers. Layer upon layer of disadvantage confers a heavy weight upon borrowers who find themselves with few other options.

We find that victims principally borrow to finance the everyday cost of living, with addictions and celebratory events making up a significant minority of cases afterwards. Those victims who seek to acquire credit elsewhere are overwhelmingly rejected and find themselves reaching to a 'friend'. Those 'friends' seek to exploit them and victims find themselves struggling to speak out, often due to fear and reliance upon the lender. This highlights the importance of the changing unsecured credit market and the space it has to facilitate credit for those who need it, as well the importance of building a more financially resilient society.

In Part Three, we set out bold but practical policies for the Government to clamp down on illegal lending, better protect the most vulnerable, and provide the alternative.

part three

# Tackling illegal money lending in England



## chapter six

# Clamping down on illegal lenders

Illegal lenders prey on some of the most vulnerable people in society. Yet, as it stands, the criminal justice system does not meet this crime with a commensurate response. This chapter reviews how we can scale up the Illegal Money Lending Team's operations and deter illegal lenders with a proportionate criminal environment.

### 6.1 Scaling up the Illegal Money Lending Team

The Illegal Money Lending Team England (IMLT) is the primary authority responsible for prosecuting illegal money lending in England. It is a team of specialist investigators and liaison officers who have previously worked for the police, trading standards, and debt advice services, who now work to investigate and prosecute illegal money lenders. The IMLT differs from traditional trading standards officers because of their investigative (rather than audit) role. Since 2011, the IMLT has arrested 730 loan sharks and written off almost £90 million of debt to illegal lenders.<sup>105</sup>

But the IMLT's work extends far beyond the arrest and prosecution of illegal lenders. The team leads on investigations (in partnership with local police forces), education and awareness raising. The team's approach, which involves 'blitzing' a local area with a physical presence of the team on estates and areas of interest, helps to destigmatise and bring victims of illegal money lending forward in a way which many statutory agencies often struggle to achieve.

We have been impressed with the deep commitment of those working in the IMLT to tackle the scourge of illegal lending. Yet there remain significant challenges.

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<sup>105</sup> Data provided by the Illegal Money Lending Team England.

We estimate that as many as 1.08 million people could be borrowing from an illegal money lender (see above, Chapter Two).<sup>106</sup> But the emerging cost-of-living crisis casts a dark shadow of financial anxiety over the population; thousands more people are likely to turn to high-risk lenders, with more predatory loan sharks seeing the potential to exploit others' circumstances.

The Government must ensure the Illegal Money Lending Team is able to respond more intensively to the continued threat of loan sharks preying on disadvantaged people in our communities. There are three key elements to achieving this.

First, given the scale of the problem of illegal lending uncovered in this report, we believe the IMLT should be empowered to scale up its operations and renew the fight against exploitative loan sharks. This means transforming what is today a small but effective unit (currently comprised of around 50 members of staff nationally) into a highly professionalised organisation with a stronger regional presence. Additional resources will enable the team to increase the frequency of their activities; increase the number of liaison specialists across the spectrum of touch points with potential victims (e.g. JobCentres, debt advice centres, credit unions and housing associations); expand their support package for victims and social media presence; and continue to inform public debate on the state of illegal lending in the UK with better data capabilities.

The impact of the Illegal Money Lending Team is currently limited by the funding it receives. Funding for the team currently flows from a levy raised by the Financial Conduct Authority on consumer credit firms.<sup>107</sup> At present, this stands at about £6.5 million pounds per annum.<sup>108</sup> In addition to this, the Illegal Money Lending Team also receives one third of the funds derived from their activities under the Proceeds of Crime Act (POCA).

Given the scale and urgency of the need to clamp down on illegal lending, we believe that the Government should review the funding arrangement for the team. The Government should use the appropriate fiscal event to release additional funding for the team including by increasing the proportion of the proceeds of crime funding delivered to the team as a result of their activities.

The Illegal Money Lending Team has shown it can deliver results on a limited budget. Assuming that these values are maintained and that we see a commensurate increase in the activity of the unit, raising the budget by just £7 million could see:

- an estimated additional 58 arrests made per year;<sup>109</sup>
- an estimated additional 3,364 victims protected per year;<sup>110</sup>
- an estimated additional £10 to £40 million saved for victims per year in addition to quality of life gains (and reduced pressures on local health service).<sup>111</sup>

<sup>106</sup> We commissioned a poll of 4,000 UK adults with the research agency Opinium in order to gather the data, which asked respondents, 'Have you borrowed from someone in your local area who charged you interest? This excludes legitimate lenders such as banks, authorised doorstep lenders, payday lenders, and credit unions.'

<sup>107</sup> Financial Conduct Authority, *FCA Handbook: Illegal money lending levy*

<sup>108</sup> Financial Conduct Authority, *FCA regulated fees and levies 2021/22*

<sup>109</sup> Based on a three year average of arrests by the Illegal Money Lending Team England.

<sup>110</sup> Based on CSJ analysis of illegal lending press releases of the number of victims lent to.

<sup>111</sup> Lower estimate based on the median (£3,008.50) f for the amount of money repaid by victims; higher estimate based on the mean (£12,348.46) figure. n = 438.

This could support the creation of more enforcement teams, dedicated victim support and stronger data analysis of illegal lending. Given the social and economic costs of problem debt are estimated to be at least £8.3 billion,<sup>112</sup> we believe there to be a robust financial case for investing additional resources into combating this deeply harmful crime.

**Recommendation 2: The Illegal Money Lending Team should be empowered to scale up its operations in light of the cost-of-living crisis.**

We estimate that there could be as many as 1.08 million people borrowing from an illegal money lender in England today. With the emerging cost-of-living crisis casting a dark shadow of financial anxiety over the population, many thousands more are likely to look in desperation to illegal lenders in the months and perhaps years to come.

The Government must ensure the Illegal Money Lending Team is able to respond more intensively to the ongoing appearance of loan sharks preying on disadvantaged people in our communities. Given the scale and urgency of the need to clamp down on illegal lending, we believe that the Government should empower the Illegal Money Lending Team to scale up its operations by releasing additional funding to the team. The Illegal Money Lending Team has shown it can deliver results on a limited budget.

This should be resourced, in part, by increasing the proportion of proceeds of crime funding delivered to the team from one third to should be increased to one half.

Funding for the Illegal Money Lending Team currently flows from a levy raised by the Financial Conduct Authority on consumer credit firms. At current, this stands at about £6.5 million pounds. In addition to this, the Illegal Money Lending Team also receives one third of the funds derived from their activities under the Proceeds of Crime Act (POCA).

Increasing POCA funding alone would not be sufficient to bolster the Illegal Money Lending Team's operations in line with the challenge it faces and we therefore propose that the Government should use the appropriate fiscal event to release additional funding for the team, including by increasing the proportion of the proceeds of crime funding delivered to the team as a result of their activities. Raising the budget by just £7 million could see:

- an estimated additional 58 arrests made per year;<sup>113</sup>
- an estimated additional 3,364 victims protected per year;<sup>114</sup>
- an estimated additional £10 to £40 million saved for victims per year in addition to quality of life gains (and reduced pressures on local health service).<sup>115</sup>

This could support the creation of more enforcement teams, dedicated victim support and stronger data analysis of illegal lending. Given the social and economic costs of problem debt are estimated to be at least £8.3 billion,<sup>116</sup> we believe there to be a robust financial case for investing additional resources into combat this crime.

112 StepChange, *The social cost of problem debt in the UK*

113 Based on a three year average of arrests by the Illegal Money Lending Team England.

114 Based on CSJ analysis of illegal lending press releases of the number of victims lent to.

115 Lower estimate based on the median (£3,008.50) figure for the amount of money repaid by victims; higher estimate based on the mean (£12,348.46) figure. n = 438.

116 StepChange, *The social cost of problem debt in the UK*

Second, the team must considerably increase their data capabilities. The team’s unparalleled access to victims of a deeply hidden crime makes them the greatest resource for understanding the attributes of victims and developing trends. We recommend several areas of interest that the team should seek to understand in greater depth and which would help to better inform the public policy response to this complex and sensitive crime:

**Table 5. Areas of interest the Illegal Lending Team England should investigate through victim interviews**

Where do victims attempt to borrow before they turn to an illegal lender?
Which sources of credits that victims tried to use were they refused?
How much did a victim initially borrow from an illegal lender?
Does a victim have any savings? If so, how much?

Budgets should also be better utilised to improve the data proficiency of the team – and the expansion of its educational programmes online. This should include harnessing social media more effectively, where we know loan sharks themselves are increasingly operating.

Third, there is at present limited awareness of the existence of the team. Just over a fifth of victims said that they did not know the team existed until they were supported. More people must be made aware of both the danger of loan sharks and the existence of the Illegal Money Lending Team, and we recommend the Government support the delivery of a generational national advertising campaign to achieve this. On top of the campaign, the team should be supported into occupying a much more visible presence in the public arena. In Chapter Seven, we also set out ways for financial education around illegal lending to be used in order to build further awareness of the team.

The Centre for Social Justice therefore recommends that a Government-backed national advertising campaign should begin to highlight the presence of loan sharks and the danger they present.

**Recommendation 3: The Government should launch a national advertising campaign to highlight the presence and dangers of loan sharks, as well as the support available from the IMLT.**

Illegal money lending can no longer remain a hidden crime, and a national advertising campaign would both shine a light on the issue and encourage victims to speak up and get support from the IMLT.

As we have seen, illegal money lending is an activity that takes many forms but operates primarily through psychological and coercive means. It is important that any national campaign is reflective of the state of illegal lending in the UK today and accurately depicts the mixed profile of illegal lenders.

Good advertising campaigns adhere to several key focus points, including being simple, positive, relevant, empathetic, and solution orientated. We believe that a national campaign must raise awareness of illegal lenders, highlight practical solutions to prevent borrowers from falling foul of loan sharks as well as the support available for those already being exploited.

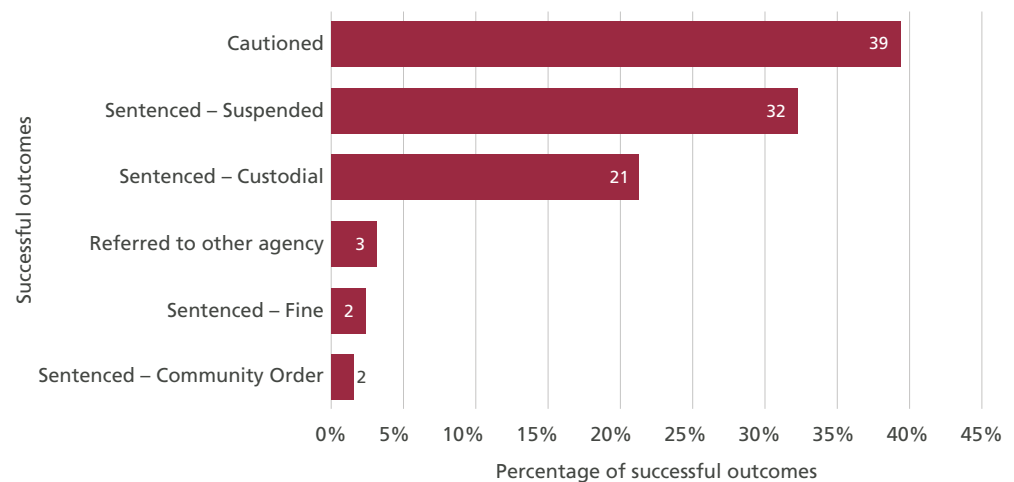
## 6.2 Deterring illegal lenders with a proportionate legal environment

As it stands, the sentencing of illegal lending does not accurately reflect the severity of the breach of trading standards that is committed, and this is reflected in the breakdown of successful outcomes shown in Figure 26 below. The provision of consumer credit is a highly regulated activity because of the deep ramifications it can have on a person's financial circumstances and their wider life. The failure to acquire a license from the Financial Conduct Authority and adhere to basic consumer protections means that victims can have little concept of the quantity or frequency of the repayments they are expected to make – if one even exists – or if they are required to pay interest. This is a crime.

As Figure 26 below shows, where successful outcomes are achieved, they are overwhelmingly non-custodial. Just under 40 per cent of outcomes which are successful are cautions, followed by a further 32 per cent which are suspended sentences, meaning that an illegal lender rarely goes to prison. Only 21 per cent of successful outcomes are custodial sentences, and this is usually where other crimes have also been committed.

Illegal money lending is a breach of Part 4A of the Financial Services and Markets Act 2000 and is punishable upon conviction by a term not exceeding six months, if the conviction is summary, or a term not exceeding two years if it is an indictment.<sup>117</sup> We do not believe that the existing sentence is commensurate with the impact of the crime on individuals, families or communities – and nor it is in parity with crimes of a similar nature.

Figure 26. Successful outcomes against illegal loan sharks are overwhelmingly non-custodial



Source: CSJ analysis of Illegal Money Lending Team England data

<sup>117</sup> Legislation.gov.uk, *Financial Services and Markets Act 2000*.



Table 6. Punishment for illegal money lending (Breaching part 4a of the Financial Services and Markets Act 2000)

(a)	On summary conviction, to imprisonment for a term not exceeding six months or a fine not exceeding the statutory maximum, or both
(b)	On conviction on indictment, to imprisonment for a term not exceeding two years or a fine, or both

Source: Financial Services and Markets Act 2000

Where lenders are charged with money laundering, a charge carrying a significantly higher tariff, criminals often do not receive such sentences because the relevant sentencing guidelines deter a judge from considering the crime, as is shown below.

Where it is possible to identify the underlying offence, regard should be given to the relevant sentencing levels for that offence.

**Fraud, Bribery and Money Laundering Offences, Sentencing Council<sup>118</sup>**

After a reduced sentence for an early guilty plea, the seriousness of the offence, and other factors that are taken into account, the result is a significantly reduced, often suspended, sentence. We believe that the current maximum sentence means that outcomes for convicted loan sharks are very rarely proportionate to the crime that is committed.<sup>119</sup> Indeed, this becomes even clearer when the high degree of culpability, the heightened vulnerability of the victim, and the often absence of legitimacy from the start of the illegal lending activity is highlighted.

The CSJ continues to maintain the importance of addressing criminogenic needs in the community where this is possible. However, it is incumbent on the criminal justice system to fulfil the five purposes of sentencing, as laid down in section 142 of the Criminal Justice Act 2003. One such requirement is the punishment of offenders and the protection of the public.<sup>120</sup> As it stands, this requirement is not fulfilled and the last major study of illegal lending found that 22 per cent of victims continue to pay their lender even after their arrest.<sup>121</sup>

Indeed, sentences for similar offences are far higher. Some fraud offences carry a maximum custodial sentence of 10 years, with culpability factors including the abuse of power and the deliberate targeting of victims based on their vulnerability – both things illegal money lenders commit.

<sup>118</sup> Sentencing Council, *Fraud, Bribery, and Money Laundering Offences*, p. 37

<sup>119</sup> Sentencing Council, *Reduction in Sentence for a Guilty plea*, p. 5

<sup>120</sup> Centre for Social Justice, *Sentencing in the Dock: The case for a new sentence in the criminal courts of England and Wales*, 2020, pp. 22–23

<sup>121</sup> Department of Business, Innovation, and Skills, *Interim Evaluation of the Illegal Money Lending Projects*, 2010

Equally, defrauding the Department of Work and Pensions for a sum of £300,000 would be met with a suggested starting point at 4 years, given category A culpability.<sup>122</sup> The penalty for defrauding one's vulnerable peers in the community by illegally lending money as a business and failing to adhere to basic consumer protections carries a maximum custodial sentence of two years, and often lenders rarely get this far. Worse still, where the Proceeds of Crime Act 2002 cannot be utilised to retrieve an illegal lender's ill-gotten gain, the consequences are often not commensurate with the seriousness of the crime committed.<sup>123</sup>

Much like fraud, illegal money lending is a breach of public trust, which starves communities of investment via limiting typical consumer spending and erodes the community's sense of belonging. Credit is a highly sensitive subject and is resultingly highly regulated to protect consumers from rogue traders. Legal credit providers must adhere to the requirements of the Consumer Credit Act and possess the relevant licence requirements. Illegal money lenders do not do this. They offer no affordability assessments, little to no knowledge of repayment requirements, and adhere to no regulations.

I've been a community worker based in the same area for over 20 years, over this time we've had several illegal money lenders working in the area. Police have always been made aware of their presence but there has never been an arrest let alone a prosecution.

Today we still have illegal money lenders causing fear and misery by their exploitation of some of the most vulnerable people in our community. Without more police action and tougher enforceable laws I don't believe this this will never change.

**Community worker**

We must remedy this anomaly in the justice system. The Centre for Social Justice therefore recommends that the Government amend the Financial Services and Markets Act Part II, Section 23 to increase the tariff for a breach of Part 4A to achieve parity between fraud and illegal money lending – a maximum of 10 years custodial sentence. New sentencing guidelines should be issued for crimes prosecuted under this offence to allow judges to interpret the relevant guidelines in line with the crime committed. We believe that an opportune time to introduce this would be via the introduction of new legislation in a review of the Financial Services and Markets Act. We also believe that this would present an opportune time to consolidate orders and regulations to improve the navigability of legislation and improve understanding.

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122 Sentencing Council, *Fraud, Bribery, and Money Laundering Offences*, pp. 8–26

123 Legislation.gov.uk, *Proceeds of Crime Act 2002*

**Recommendation 4: The Government should amend the Financial Services and Markets Act 2000 to increase the tariff and achieve parity between fraud and illegal money lending. New sentencing guidelines should be issued to allow judges to interpret the relevant guidelines in line with the crime that is committed.**

Too often, illegal lenders do not receive sentences that are proportionate to the crime that they commit. The CSJ continues to maintain the importance of addressing criminogenic needs in the community where this is possible. However, it is incumbent on the criminal justice system to fulfil the five purposes of sentencing, as laid down in section 142 of the Criminal Justice Act 2003. One such requirement is the punishment of offenders and the protection of the public. As it stands, this requirement is not fulfilled and the last major study of illegal lending found that 22 per cent of victims continue to pay their lender even after their arrest.

Credit and its supply is a heavily regulated activity because of the deep ramifications it can have on a person's financial circumstances and their wider life – yet a deep gulf exists between the sentences that illegal lenders receive and the crime that they commit. Indeed, this becomes even clearer when the high degree of culpability, the heightened vulnerability of the victim, and the often absence of legitimacy from the start of the illegal lending activity is highlighted. The tariff for similar crimes, such as fraud, are considerably higher. Some fraud offences carry a maximum custodial sentence of 10 years, with culpability factors including abuse of power and deliberately targeting victims based on their vulnerability – both things illegal money lenders commit.

We believe that the sentence for illegal money lending as it exists under the Financial Services and Markets Act 2000 is not sufficient to deter illegal lending and does not recognise the crime for what it is. The law, as it stands, has not yet found the appropriate place in the hierarchy of offences for this crime. We therefore recommend that Part 4A of the Financial Services and Markets Act be amended to achieve a parity of esteem between fraud and illegal money lending. New sentencing guidelines should be issued for crimes prosecuted under this offence to allow judges to interpret the relevant guidelines in line with the crime committed. We believe that an opportune time to introduce this would be via the introduction of new legislation in a review of the Financial Services and Markets Act. We also believe that this would present an opportune time to consolidate orders and regulations to improve the navigability of legislation and improve understanding.

## chapter seven

# Protecting the most vulnerable

Despite the Illegal Money Lending Team's best efforts, it is inevitable that some victims will always struggle to come forward and be heard. However, given what we know of victims, there are a number of services that they come into contact with, and these services must be able to detect illegal lending and be able to support victims.

### 7.1 Debt advisers

Despite the strong overlap between those experiencing problem debt and those turning to illegal lenders, we have heard during the course of our research that individual debt advisers regularly feel unequipped to address this form of borrowing in their engagements with clients. Previous research by the CSJ, which explored hidden debt with several hundred debt advisers across England, identified a high degree of inconsistency in the approaches taken by advisers to broach the subject of loan sharks, as well as the ways different advisers suggested they would respond to it arising in client consultations.<sup>124</sup>

Some advisers remarked that they relied on intuition when it came to spotting cases of illegal money lending. This was expressed as, for instance, looking out for a name that kept 'cropping up' in clients' bank statements; or 'joining dots' throughout discussions with clients. Others noted their reticence to probe into debts owed to friends and family, even though this is a key technique victims use to avoid discussing an illegal lender. Resultingly, advisers may be missing crucial information about a client's finances.

We know that this can have damaging consequences. The CSJ heard of several victims who had sought debt advice but didn't mention the illegal lender because they were not asked about these transactions. Failures of this kind can prolong the time in which a victim remains in thrall to an illegal lender.

We had a client who borrowed £100 for essential items when she was 19 and she agreed to pay back £10 per week. She came to us at age 43 and she's still paying back £10 per week.

**Debt adviser, Merseyside**

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<sup>124</sup> Centre for Social Justice, *Uncovering Hidden Debt*, 2021

What I've always struggled with as an adviser is that if you do have someone with a loan shark – what do you do?

Debt adviser, Newcastle

Some advisers also highlighted that their unease with dealing with illegal money lending came from a lack of awareness about how to provide effective support for clients who were indebted to loan sharks. Although some said that they directed clients who indicated owing money to a loan shark to the Illegal Money Lending Team, others expressed uncertainty about the course of action to take in this situation. This could also be explained by the fears of the advisers themselves, many of whom are well established residents in the areas they serve.

I've never found anything, myself, that you can do to help them deal with that.

Debt Adviser, West of England

We know that where advisers do possess knowledge of the subject area and are empowered to act, positive outcomes have emerged.

It is the duty of debt advisers to work with the authorities as expeditiously as possible to clamp down on illegal lending. However, given the often personal relationships they have with individuals in complex financial and social circumstances, their role as a gateway into hidden debt must be better utilised.

However, for this to occur, debt advisers must be supported to ask the right questions of their clients to capture a complete picture of their financial situation and detect illegal lending. The Centre for Social Justice therefore recommends that debts to illegal money lenders be added to the Standard Financial Statement and that the Illegal Money Lending Team work in co-operation with debt advice agencies to provide training and guidance about how to explore this highly sensitive subject with clients. Debt advisers who feel at risk themselves when exploring these subjects should be given the appropriate advice and protections from the Illegal Money Lending Team.

**Recommendation 5: Debts to illegal money lenders should be added to the Standard Financial Statement and new training and guidance issued to debt advisers.**

Debt advisers must be empowered to detect illegal lending where it takes place, and that means broaching sensitive issues in the appropriate way. The Standard Financial Statement is a near universal method of understanding someone's income and expenditure, and debts to illegal money lenders ought to be included. This will empower debt advisers to ask their clients the necessary questions. The Money and Pensions Service should launch a consultation on how best to frame the inclusion of illegal lenders – for example by framing the question as relating to 'someone in your local area who charged you interest' (see above, Box 1 on p. 15. A note on methodology).

As we have heard, approaching the topic of illegal money lending is difficult and varies considerably from client to client. Debt advisers must have the correct space and facilities to discuss hidden debt. We have heard strongly that in-person settings for debt advice are an important facilitator for such discussions with vulnerable clients, who often need intense support to work out their finances and open up.

Debt problems are increasingly complex.<sup>125</sup> Clients with complex problems require tailored support, and this is often in person.<sup>126</sup> Without it, people with debt issues, which the Money and Pensions Service itself expects to rise by 60 per cent, may not be able to access the support they need, and many might withdraw from support altogether.<sup>127</sup> In person debt advice must be available for the most vulnerable to access when they need it.

The Centre for Social Justice therefore recommends that the Money and Pensions Service commits to driving technological efficiency in the debt advice sector while committing to protect face to face debt advice for the most vulnerable.

**Recommendation 6: The Money and Pensions Service should commit to protecting face to face debt advice for the most vulnerable while driving technological efficiency via the use of open banking.**

The disruptive course of the pandemic has shown that it is possible to make efficiencies in the way that debt advice is conducted via the use of mixed channels and technological innovation. This will only become more sophisticated with the expansion of Open Banking data and increasing willingness amongst clients to share the details of their financial lives. We believe that the Government should encourage the sector to make use of advances in technology and promote innovation.

However, as we have seen, the need for face-to-face debt advice for the most vulnerable is clear. Victims of illegal money lending find it exceptionally difficult to talk about their debts for a multitude of reasons. Indeed, their nature as hidden debts, which appear to be predominantly cash based, means that real-world limitations on the use of technology remain. We therefore propose that the Money and Pensions Service commit to protecting face to face debt advice for the most vulnerable while driving technological efficiency and innovation in the debt advice sector.

## 7.2 Housing associations

In the course of this research, we interviewed housing association staff who have dealt with illegal money lending. They expressed similar concerns to other services, namely that victims struggle to speak up. They also made clear that consistent advertisement of the issue was key to ensuring that potential victims were made aware of the scourge of illegal lending.

<sup>125</sup> Centre for Social Justice, *Collecting Dust*, 2020

<sup>126</sup> Citizens Advice, *Rising pressure on household budgets*, 2021

<sup>127</sup> Money and Pensions Service, *Extra £38 million for debt support in England in the wake of coronavirus*

One particular theme that emerged was a housing association's ability to support victims of illegal lending by providing a support service in the form of a benefits and money advice service which is paired with support funds to encourage people to access the support they need.

### Case study: Cheltenham Borough Homes

Cheltenham Borough Homes created a Benefits and Money Advice service in 2011, specifically to help tenants navigate the complexities of changes to the welfare system.

Cheltenham Borough Homes identified that clients were more willing to discuss debt issues with friendly figures that they allowed into their homes. Discovering suspected instances of illegal lending, Cheltenham Borough Homes made contact with the Illegal Money Lending Team and sought 'train the trainer' support training.

Cheltenham Borough Homes trains all its staff to identify illegal lending as part of their induction and encourages staff to refer concerns to the Benefits and Money Advice service or directly to the Illegal Money Lending Team.

As part of their efforts to raise awareness, Cheltenham Borough Homes has

- wrapped the rear doors of trade vans to highlight illegal lending out on the road;
- advertised illegal lending with the Illegal Money Lending Team;
- included illegal lending in training to staff and clients;
- conducted press and social media advertising campaigns;
- given presentations and raised awareness amongst external partner.

### Aaron's story\*

Aaron was referred to the support service at his housing association because he had escalating rent arrears. Unable to pay, it was noticed that Aaron became increasingly upset and clearly unable to maintain his promises to pay.

The support service helped Aaron maximize the support he received and questioned Aaron's income and expenditure, his reluctance to see a debt adviser, and tried to encourage greater openness. Aaron explained that he owed money to a 'mate' and that the loan had become a priority debt.

The support service openly asked Aaron if this 'mate' was a loan shark and encouraged him to seek confidential help after explaining what illegal lending is and what the risks associated with it are. Unwilling to go forward, Aaron went away.

Years later, Aaron still owed money to a 'mate'. Asked again, Aaron admitted his 'mate' was a loan shark, having seen leaflets explaining illegal lending distributed by the housing association. Opening up, Aaron explained that he'd known the 'mate' for more than 20 years. His tipping point was an increasing frequency of visits by the loan shark, recognition of their behaviour, and the tone and comments directed towards him.

With the support of the Illegal Money Lending Team, Aaron's 'mate' was stopped.

\*Anonymised

The above examples show just some of the ways that housing associations can deploy their resources and considerable contact time with their residents to detect and end illegal lending. With such a high prevalence of victims living in some form of social housing, other housing associations and social landlords should play more of a role in raising awareness of illegal lending and stamping it out.

The Centre for Social Justice recommends that the Department for Levelling Up, Housing, and Communities support this work by collating and sharing best practice among housing associations.

**Recommendation 7: The Department for Levelling Up, Housing, and Communities should collate and share best practice amongst housing associations to ensure cutting edge support services.**

Housing associations must become better attuned to the dangers of illegal lending and the presence of it within their properties. The Centre for Social Justice recommends that more housing associations take action to raise awareness of illegal lending among their staff and clients, as well as offering support services that directly ask clients about their experiences where appropriate.

In addition, the Department for Levelling Up, Housing, and Communities should collate and share best practice among housing associations to ensure cutting edge support services for the most vulnerable.

### 7.3 JobCentre Plus work coaches

A high instance of reliance on benefits means that many victims of illegal money lending will likely come into contact with statutory services, job centres, and work coaches, especially in light of the fact that 52 per cent of victims say they struggle to fill in forms and therefore require additional support.<sup>128</sup> This presents a clear opportunity for those statutory services to be supported to identify victims and refer them on to the Illegal Money Lending Teams and their support package.

However, despite this, very little intelligence is ever passed to the authorities by work coaches. We therefore recommend that the DWP develops new guidance and training for work coaches, who in the unique role they play provide a valuable gateway into hidden debt.

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<sup>128</sup> Department of Business, Innovation, and Skills, *Interim Evaluation of the National Illegal Money Lending Projects*, p. 32



**Recommendation 8: The Department for Work and Pensions should develop updated guidance and training for JobCentre Plus work coaches to better identify and refer potential victims to the Illegal Money Lending Team.**

The CSJ spoke to a number of work coaches, most of whom reported an understanding of illegal lending and have received training from the Illegal Money Lending Team. Despite this, very little intelligence is ever passed to the authorities by work coaches. A significant number of borrowers report receiving some form of benefit every year, rising to three quarters in 2021. A looming question therefore sounds why work coaches do not seem to detect and report illegal lending.

The Centre for Social Justice proposes that the Department of Work and Pensions should develop updated guidance and training for JobCentre Plus work coaches to better identify and refer potential victims to the Illegal Money Lending Team.

## 7.4 Local councils

As highlighted in earlier chapters, victims of illegal money lending find themselves coming into contact with their local council either because they miss a payment on their council tax or they request help. Each year, about 10 to 20 per cent of victims say that they ask their local council for welfare help. Councils, therefore, must be equipped to identify victims and support them.

Data from the Illegal Money Lending Team England shows that while around two thirds of councils have trained at least one of their teams, coverage is very uneven. While some councils who focus on financial inclusion, such as Birmingham and Leeds, excel, others are less engaged. A considerable number of councils have only trained one of their teams, while others have training across multiple teams. Many London boroughs, for instance, have received training from the Illegal Money Lending Team for their housing, social services, children services, and trading standards teams.

If councils are to be equipped to identify and support victims of illegal lending, then their teams must be trained accordingly. The Centre for Social Justice therefore recommends that local councils adopt the 2030 Challenge to ensure 100 per cent of their homelessness, benefits, social services, and safeguard teams are trained to recognise and detect illegal money lending by 2030.

**Recommendation 9: Local councils should adopt the 2030 Challenge to ensure all are equipped with high-quality training on illegal lending.**

Just like other statutory services, local councils must be equipped to identify, understand, and challenge illegal lending at its source. We know that 10% to 20% of victims request support from their local council every year, and yet many fall through the cracks.

Councils should be equipped to uncover illegal lending, but currently the knowledge bank required to do this does not exist. The CSJ recommends that all councils set themselves the 2030 Challenge to train more of their non-Trading Standards teams to recognise and stamp out illegal lending. This should be focused on homelessness, benefits, social services, and safeguarding teams.

## 7.5 The police

While the police are not directly responsible for prosecuting illegal money lenders, they play a central role in the identification and investigation of loan sharks. The responsiveness of police forces across the country varies, and officers we've spoken to anonymously have suggested that the issue of illegal lending often falls low on the priority list in some areas.

More concerningly, the CSJ has received reports of police officers incorrectly informing victims that their debts are a civil matter leaving them without help when it is needed. Additionally, we have learned anecdotally that police officers are on occasion likely to associate the discovery of notebooks and records revealing illegal money lending as evidence of drug dealing. While an easy mistake to make, the relative absence of illegal money lending in police thinking represents a missed opportunity. These insights highlight the need for specific training in the police alongside the societal awareness campaign set out earlier.

**Recommendation 10: Make illegal money lending a mandatory part of training for police community support officers.**

Police officers are boots on the ground and support their communities each and every day. They are the unsung heroes of community intelligence. The Government has recognised this through welcome commitments to increase police numbers by 20,000. However, not all police officers are aware of illegal lending and the signs that it may be taking place can often be mistaken for other crimes, such as drug dealing.

Community support police officers must be empowered to recognise and report illegal lending in their communities to protect victims and defend the important bonds of trust that bind them together. Illegal money lenders are pervasive over the communities that they inhabit and community support officers are best placed to identify them.

## chapter eight

# Providing the alternative

Illegal lenders are often the only credit option available to those on the lowest incomes. As we have shown, 80 per cent of victims who applied to a form of legal credit were rejected. This illuminates a market that remains unresponsive to the needs of those on low incomes, as well as the need to improve overall levels of financial resilience.

We have long argued that low-income households must be treated as legitimate consumers in a competitive market of alternative finance institutions if they are to be able to access the services that enable full social and economic participation.<sup>129</sup> People across Britain use credit daily, and low-income households continue to need it to manage their day-to-day finances. Of course, credit can be part of the solution – not just the problem – in our financial lives. But despite some growth in the alternative finance sector, the market for credit continues to falter. Meanwhile, the need to build financial resilience post-pandemic, and in the face of the cost-of-living crisis, only grows stronger.

In this chapter, we make the case for bold but practical changes to the current credit ecosystem to increase the capability of existing providers to deliver for those on low incomes. We also recommended changes to improve levels of financial resilience among those likeliest to fall victim to loan sharks. We propose scaling up the Government's Help to Save initiative, reducing regulation around credit unions to help revolutionise the sector for the 2020s context, and supporting new investment and charitable giving to community finance institutions. We believe that taking these measures forward will turbocharge the growth of affordable finance institutions across Britain – and provide the real alternative to illegal lenders that people desperately need.

## 8.1 Building financial resilience

The Centre for Social Justice strongly welcomes the recent cut in the Universal Credit taper rate from 63 to 55 per cent and a considerable increase to the UC work allowance, following several years of our campaigning. These changes resemble an effective tax cut worth two billion and will see two million households keep more of the money that they earn and an income boost of £1,000 per year on average.<sup>130</sup>

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<sup>129</sup> Centre for Social Justice, *Future Finance: A new approach to financial capability*, 2015

<sup>130</sup> Gov.uk, *£1,000 boost for nearly 2m working households on Universal Credit*, 2021

Still, there is an ongoing and heightened need to support those on the lowest incomes through the cost-of-living crisis currently afflicting the UK (and indeed much of the world post-pandemic). This includes recognising the extent to which levels of welfare support are unresponsive to sharp spikes in inflation, only made more pressing by the accelerating cost of basic goods and services in 2021–22. In forthcoming research, the CSJ will advance recommendations to remediate the cost-of-living crisis for the most disadvantaged households.

It remains the case that we require a long-term, sustainable defence against illegal money lending. And one key to this is building a more financially resilient society.

### 8.1.1 Help to Save

Another support mechanism already in place is HM Treasury’s Help to Save Scheme. Eligible for those receiving Working Tax Credit or working while receiving Universal Credit, Help to Save allows savers to deposit between £1 and £50 each calendar month. At the end of the first two years, savers are given a 50 per cent bonus of the highest balance they have saved. After four years, savers are given another 50 per cent bonus of the difference between the highest balance saved between the first and final two years.<sup>131</sup>

Supporting over 284,000 people by March 2021,<sup>132</sup> research shows that the scheme has supported people to save. Almost four in five users (78 per cent) who were not regular savers before they started their account say that they save more now than they did before participating in the scheme, compared to 54 per cent who were already regular savers. Equally, over two thirds of those who were not regular savers said that they found it easier to save with Help to Save than they did before participating in the scheme.

However, many people who are eligible for the scheme have not signed up. Upon launch, it was estimated that about 3.5 million people would become eligible for the scheme, and, therefore, the scheme’s reach has been limited.<sup>133</sup> Qualitative market research has shown that more effective communication and promotion of the scheme is necessary to reach larger numbers.<sup>134</sup> Sending text messages to those eligible and placing half of a saver’s bonus into their savings account are simple ways to improve uptake and savings.

#### **Recommendation 11: HM Treasury should promote the uptake of Help to Save.**

Help to Save represents a key opportunity to support those on low incomes to save and build a financial cushion against unexpected costs. Yet the latest data shows uptake to be at just eight per cent of those estimated to be eligible upon launch.<sup>135</sup>

We believe that HM Treasury in coordination with the Department of Work and Pensions should make a concerted effort to promote the scheme to those eligible and increase uptake. For instance, those on Universal Credit and eligible for the scheme could be notified through their account and opt to save a set amount of money from their claim every month.

131 Gov.uk, *Help to Save*

132 HM Revenue & Customs, *Help to Save Tables, 2022*

133 Gov.uk, *PM announces new support to improve the life chances of millions, 2016*

134 HM Revenue & Customs, *Help to Save Customer Experience Research, 2021*

135 HM Revenue & Customs, *Help to Save Tables, 2022*

**Recommendation 12: The Government should review the generosity of the Help to Save scheme.**

The underspend on Help to Save is likely to be considerable given the low uptake. And HM Treasury estimates of the cost of the scheme have previously been revised down by the Office for Budget Responsibility. This is despite the transformative impact of the scheme in providing greater financial resilience for thousands of people on low incomes. HM Treasury should recommit the long-term underspend from Help to Save to increase the generosity of the scheme. As part of this, HM Treasury should pilot behavioural nudges to reward higher levels of saving, including by allowing users to capture additional benefits from reaching savings targets planned in advance.

### 8.1.2 The No Interest Loans scheme (NILS)

For those who struggle to access credit the most, HM Treasury is currently beginning its pilot of the new No Interest Loans scheme. Inspired by the Good Shepherd scheme in Australia, local councils, housing associations, and charities will be encouraged to form partnerships with lenders to test a nationwide NILS scheme. Loans will average about £500, and the pilot will test repayment periods, terms, and rates.<sup>136</sup>

We welcome the pilot scheme and believe that it will support greater financial inclusion for those on the lowest incomes. However, the NILS scheme also presents an advantageous opportunity to build longer-term resilience among those experiencing financial difficulty. The Government should focus on the scheme's potential to tackle the root causes of poverty and prevent default, ensuring that recipients of the loans are connected to local charities who provide longer-term financial advice.

Financial resilience and education continue to be key pillars in the move towards financial inclusion and we believe that the scheme should give pride of place to these facts. This also means connecting clients with other initiatives to promote savings where possible.

### 8.1.3 Financial education

One reason why we feel so uncomfortable talking about money as a nation is that we feel ourselves severely lacking in financial know-how. The Money and Pensions Service has found that 24 million people do not feel confident managing their cash day-to-day.<sup>137</sup> And recent research published by the CSJ in 2022 found that nearly half of UK adults (44 per cent) said they would be in better shape financially if they received more financial education. Half of the population (46 per cent) with direct experience of financial problems blamed low money management skills for their issues, rising to over two thirds of young adults (68 per cent). Further MaPS research shows that children's money habits are formed from as early as age seven.<sup>138</sup> Those leaving school without an effective financial education are at additional risk of financial abuse, fraud and debt. Around 55,000 children aged 11–16 are estimated to be problem gamblers and recent reports warn of increasing numbers of young people

<sup>136</sup> Fair For All, *No Interest Loans Scheme*, 2021

<sup>137</sup> Money and Pensions Service, *24 million UK adults don't feel confident managing their money. Talk money Week is here to help*, 2021

<sup>138</sup> The Telegraph, *Money habits are 'formed by age seven'*, 2013

being turned into ‘money mules’ for criminal gangs. Yet today only one in three children currently receives any form of financial education at primary school. While financial education was introduced to the national secondary curriculum in 2014, provision has been found to be patchy and reliant on the motivation of individual staff.<sup>139</sup>

Better awareness of illegal lending and the support available can be addressed in part through advertising campaigns (as identified above). However, there is ample scope to use financial education at school age to spread awareness of the dangers of loans sharks. We have seen strong examples of educational interventions for young people, including at primary school age, to increase awareness and conceptual understanding from an early age.

### Case study: The Money Buddies book

Created by the Illegal Money Lending Team, Money Buddies, and Leeds City Council’s Dewsbury Road Community Hub, The Money Buddies’ storybook teaches young children about personal finance and how to manage money. It introduces the theme of loan sharks and encourages families to join credit unions instead. The Money Buddies charity worked to ensure that all children in Leeds were provided a copy of the book.

### **Recommendation 13: The Government should review the effectiveness of the existing financial education offer, with particular consideration given to the provision of education about the dangers of illegal lending.**

Building financial resilience in Britain is intrinsically linked to efforts to improve financial education. The CSJ’s Financial Education Initiative will, in summer 2022, advance a range of recommendations to Government to update the financial education offer for the 2020s. However, lessons can be learned immediately from examples of best practice where young people are being equipped with financial skills and understanding of the dangers of illegal lending.

The Department for Education should facilitate the sharing of best practice learning materials among primary and secondary schools in partnership with the Illegal Money Lending Team.

## 8.2 Sparking a Credit Union revolution

Credit unions, often known as community banks, make up a key player in the affordable finance ecosystem. As co-operative societies with a social mission, credit unions offer low-cost alternative loans. At their best, credit unions represent a financial lifeboat for communities left behind by the mainstream financial sector.

<sup>139</sup> House of Lords, *Tackling financial exclusion: A country that works for everyone?*, 2017

## Box 2. What is a credit union?

Credit unions are co-operative societies who provide financial services – primarily savings and loan facilities – to their member-owners. They are registered as Co-operative Societies under the Co-operatives and Community Benefit Societies Act 2014 and the Credit Unions Act 1979. Credit unions are non-profit making and each union is separate and autonomous.<sup>140</sup>

Each credit union has a common bond which determines who can join it. The common bond may be for people living or working in the same area, people working for the same employer or people who belong to the same association, such as a church or trade union. As financial co-operatives, credit unions are part of the long established and growing co-operative movement in Britain.<sup>141</sup>

Only members can save into a credit union, and most unions require members to demonstrate their ability to save before offering loans. In some cases, membership fees are charged, but shares or savings are far more important. Saving is encouraged for two main reasons. First, the level of savings within a union allows it to make loans to its members. Second, the amount those individual members can borrow is usually tied to the amount of savings the member has accrued. Saving also supports borrowers to build a financial cushion. A study has shown that 67 per cent of people who had previously not been able to save became regular savers as a result of participation in a credit union.<sup>142</sup> Credit unions can also pay interest to savers in the form of a dividend, derived from the interest the union achieves from low-interest loans to its members.

Credit unions can be an important player in the fight against poverty. In particular, they provide savings and loan facilities to those with limited or no access to financial services from mainstream providers, often due to their low income, damaged credit or lack of credit history.<sup>143</sup> For instance, a recent poll showed that over 70 per cent of debt advisers said that they are familiar with a credit union who had provided an account to clients who had previously been refused by high street banks. 80 per cent said that they have seen a credit union provide a loan to clients who had previously been refused a loan by other lenders.<sup>144</sup>

We know that credit unions offer credit to those on low incomes (critically while also building financial resilience) and previous studies have found that borrowing from a credit union decreases the worry and negative health effects of loans among low-income groups.<sup>145</sup>

Guiding people to regulated credit makes their lives, and the lives of their communities, far less turbulent.

Debt Adviser

140 House of Commons Library, *Credit Unions*, House of Commons Library, 2015

141 *Ibid*

142 Fairbanking, *Save as you borrow – credit unions creating good habits*, 2017

143 Association of British Credit Unions, *HM Treasury – Financial Services Future Regulatory Review Framework*, 2019

144 Institute of Money Advisers, *Credit unions and debt advice: results of IMA membership survey*, 2021, pp. 15–16

145 The University of Sheffield, *Debt and Health*, p. 19

Table 7. Brief history of the modern credit union movement in the UK

Year	Event
1960	The first recorded credit union in the UK was formed in Derry, Northern Ireland
1964	Wimbledon Credit Union was established on the 1st April making it the first credit union in Britain
1964	The National Federation of Savings and Credit Unions is formed as a support organization for credit unions
1967	The first Credit Union Handbook is published by Ted Sammons. It is thought to be the first ever credit union publication in Britain
1979	In March 1979, the House of Commons passes the Credit Unions Bill. The act gives recognition and legal protection to credit unions and their members
1984	The Credit Union League of Great Britain changes its name to the Association of British Credit Unions
1996	A Deregulation Order reduces restrictions on borrowing by non-qualifying credit union members and introduces the Section 11C certificate, allowing certain unions more power to lend
1999	The publication of <i>Towards Sustainable Credit Union Development</i> advocates direct funding to credit unions
2002	Credit unions are now regulated by the Financial Services Authority. Deposits are protected for the first time with membership of the Financial Services Compensation Scheme
2003	Amendments to the 1979 Credit Unions Act allow credit unions to charge for providing additional basic services and introduce 'live or work' common bonds
2004	The Growth Fund, part of the Financial Inclusion Fund, is launched to increase the availability of affordable credit
2006	The ceiling on the maximum rate a credit union can charge for loans is increased from 1 per cent a month to 2 per cent a month on the reducing balance
2012	Changes to the Credit Union Act 1979 come into force in January. A Legislative Reform Order removes restrictions on credit unions and allows them to reach out to more people
2013	In May, ABCUL is contracted by the DWP to deliver the Credit Unions Expansion Project. The CEUP aimed to increase total credit union membership to 2 million people by 2017, and to diversify the range of products that they offer <sup>146</sup>
2014	The ceiling on the maximum rate a credit union can charge for loans is increased from 2 per cent to 3 per cent a month
2017	In the Autumn Budget, the Government committed to raising the geographical common bond limit for credit unions from 2 to 3 million. This came into force in 2018








Source: ABCUL

146 Centre on Household Assets and Savings Management, *Credit Unions in the UK – balancing social benefit with economic viability*, pp. 4–5



Recent governments of all stripes have recognised the importance of credit unions in providing low-cost credit and have supported the growth of credit unions in various ways. The last Labour government established the Growth Fund, which was administered by the Department for Work and Pensions, distributing grants to third sector lenders to fund additional lending to those who were financially excluded. In 2009, the Financial Inclusion Taskforce highlighted the importance of this fund in expanding credit options for those that needed them, especially in the wake of the financial crash.<sup>147</sup> The Coalition Government also made changes to increase the interest cap that credit unions are allowed to charge on their loans, which is currently set at a 42.6 per cent annual percentage rate, to allow them to expand their customer base. More recent initiatives are included in the table below:

Table 8. Recent government initiatives to expand credit unions

Year		Initiative
2018		The Government launched the Affordable Credit Challenge supporting partnerships between community lenders and financial technology firms to develop innovative solutions to help increase access to affordable credit
2019		The prize-linked Saving Scheme which incentivises credit union members to save a certain amount in an eligible credit union account with the chance of winning a cash prize is created
2019		Fair4All Finance is established and allocated dormant assets money to support financial credit unions and other financial inclusion initiatives
2020		The government commissioned a feasibility study, published in 2020, on a no interest loans scheme (NILS), and its subsequent work with stakeholders towards a pilot. A no-interest loan scheme would provide access to credit for those who may struggle to pay anything more than the principal of a loan
2020		The Prudential Regulation Authority announced that it will reduce capital restrictions on the largest credit unions, ensuring a more proportionate regulatory framework. The change also removed capital requirements linked to membership
2019		The Scottish government's £10m Credit Union Investment Fund was founded with the aim of assisting credit unions to grow and help more people to save and borrow
2020		The Welsh government established a scheme during Covid-19 to enable those living in private rented accommodation, who have fallen behind with their rent, and are at risk of being evicted, to apply to a credit union for a low interest rate loan to clear arrears. This scheme is underwritten by the Welsh government

Source: Financial Conduct Authority, ABCUL, et al.

<sup>147</sup> Financial Inclusion Taskforce, *Financial Inclusion: More important than ever*, 2009

### 8.2.1 How to unlock credit unions' potential

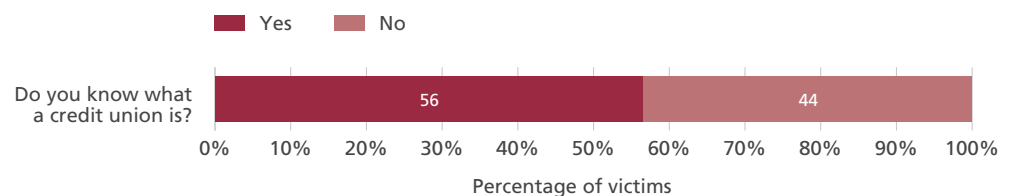
Victims of loan sharks are, as this report has shown, the type of consumers that credit unions should be providing for, and they are not alone. Fair4All Finance estimates that there are 11 million people in the UK who need support accessing cheaper, more sustainable forms of credit, including 3 million who are stuck in persistent debt and 4.5 million on stable but low incomes.<sup>148</sup> This group can and should be supported. Indeed, the credit unions we spoke stressed to us the possibility of expanding the number of low-income customers they serve by subsidising the costs of lending to the financially excluded through profits from their more affluent customers.

However, substantial barriers prevent credit unions from expanding their client base and reaching financially excluded customers. The public largely lacks awareness of the existence, purpose and mechanism of credit unions, and many have not been able to keep pace with the changing digital and financial landscape.

Polling shows that most Britons do not know what a credit union is, with only 15 per cent saying that they know a lot about credit unions.<sup>149</sup> The website 'Find Your Credit Union' has been operational since 2010, but given low public knowledge of credit unions, few people search for one local to them. Credit unions need to be encouraged to expand their online marketing presence and increase their profile in local communities.<sup>150</sup>

Just over half of loan shark victims report knowing what a credit union is but few report being part of one. Just 6 per cent of the 2021 cohort of victims said that they were a member of a credit union.

Figure 27. Just over half of loan shark victims are aware of credit unions



Source: CSJ Analysis of data collected by the Illegal Money Lending Team England (n = 627)

In addition, the recent *Woolard Review* admits that community credit providers, such as credit unions, continue to face barriers to growth and often struggle to compete with larger, commercial lenders.<sup>151</sup>

148 Financial Conduct Authority, *The Woolard Review: A review of change and innovation in the unsecured credit market*, 2021, p. 30

149 Association of British Credit Union Limited, *A Lessons Learned Review of the Credit Union Expansion Project*, 2019, p. 31

150 Find your Credit Union.

151 Financial Conduct Authority, *The Woolard Review*, p. 32

We envision bigger, bolder credit unions that are able to free themselves from government subsidy by expanding their offerings and increasing their membership among consumers across the income spectrum. For too long, the sector has been subject to competing and incompatible demands. Credit unions cannot both provide their services predominantly to the financially excluded and also pass on the need for public subsidy. Rather, credit unions should be encouraged to increase their membership across the market and use the profits derived from lending to higher income consumers to subsidise lending to those on lower incomes.

Therefore, to iron out these contradictions, we recommend re-writing the credit union act to reduce the regulatory restrictions currently placed on the sector. Written over 40 years ago before the age of technology, the Credit Union Act is out of date and unable to provide a growth-focused regulatory environment.

**Recommendation 14: The Government should rewrite the Credit Union Act 1979**

The Credit Union Act of 1979 is outdated. It stifles the ability of credit unions to expand and attract new customers. Credit unions must be enabled to attract wealthier customers if they are to use the profits of their lending activity to offer low-cost, alternative credit to vulnerable consumers.

Re-writing the Credit Unions Act 1979 to reduce restrictions and provide a proportionate, growth-focused regulatory environment is a positive step towards this goal. Below we set out a range of recommendations which, combined with legislative change, we believe will spark a credit union revolution.

We recognise that there are a number of challenges facing credit unions that need to be addressed if we are to support them to grow. We address them one by one below.

### 8.2.2 Challenge 1: low loan to assets ratio

Credit unions in Britain have a low loans to assets ratio, which presents issues to lenders. Despite increases to the absolute lending amount, the percentage of their assets that credit unions have lent has decreased considerably since 2005.

According to the World Council of Credit Unions PEARLS system, the 'ideal' loan to assets ratio is between 70–80 per cent.<sup>152</sup> Despite recent improvements, Great Britain is considerably below that, falling from 75 per cent in 2005 to about 50 per cent today.

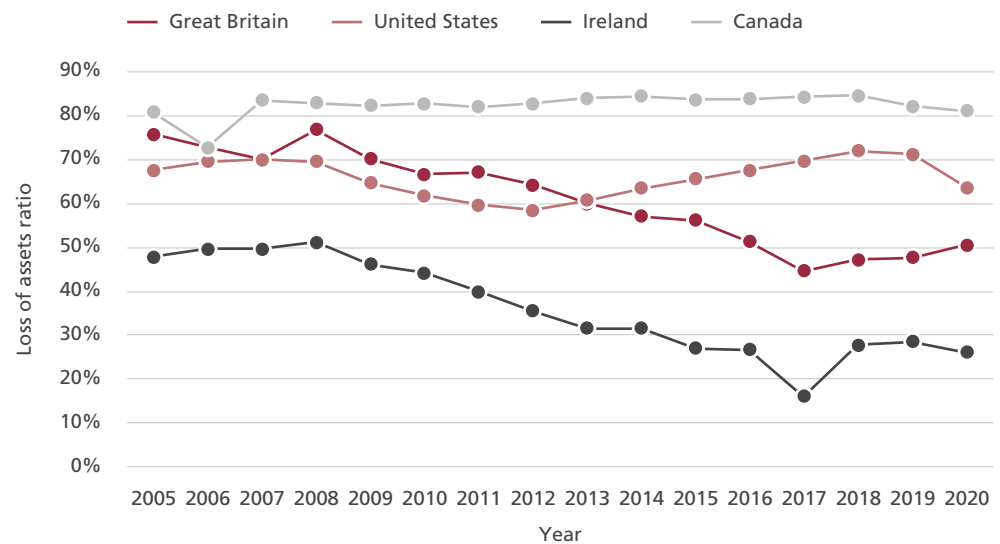
This is a problem for several reasons. Since credit unions are collectively owned by their members, capital cannot be raised by issuing equity shares as a private company might and therefore are almost entirely reliant on accumulated earnings derived through profits from loans. If loans are not forwarded, then deposits are left to accrue negligible interest in a bank. Unsurprisingly, this has a damaging effect on growth. It also affects the amount of capital credit unions are required to maintain, which we will discuss later.

<sup>152</sup> World Council of Credit Unions, *PEARLS Monitoring System*, 2009, p. 4

The credit unions we spoke to said that they had a number of affluent clients who chose to deposit with them, but often did not take loans, primarily because they did not need or want them. If credit unions are to succeed in promoting borrowing among more affluent clients, then they must be able to provide a wider range of products, currently clouded by restrictive legislation. But despite challenges posed in bringing new products to market, credit unions themselves are also excited to offer more. The Association of British Credit Unions has found that 70 per cent of credit unions are interested in offering auto finance, and more than half are interested in providing credit cards.<sup>153</sup>

The Government has already announced that it will allow credit unions to provide hire purchase agreements, but we believe it must go further.<sup>154</sup> Currently, too much confusion exists surrounding what products credit unions can offer, and this must change. Credit unions should be allowed to offer credit cards, car finance, mortgages, and buy now pay later products to increase their growth and attract more clients, and this should be clearly articulated by government.

Figure 28. Loan to assets ratio of selected nation's credit unions



Source: World Council of Credit Unions

153 Association of British Credit Unions, *Vision 2025*, 2020

154 Gov.UK, Economic secretary speech to the ABCUL, 2020

**Recommendation 15: Credit Unions should be allowed to provide a greater variety of services.**

In order to generate sufficient profits to subsidise lending to the financially excluded at affordable rates, credit unions must be able to attract more affluent clients and be able to provide a wider variety of services to those clients.

Currently, the Credit Union Act 1979 is ambiguous, and greater clarity is needed to prevent the stifling of growth. The Centre for Social Justice suggests that credit unions be allowed to offer a wider array of products (such as credit cards, car finance, mortgages, and buy now pay later products) as part of a wider and rejuvenated array of services.

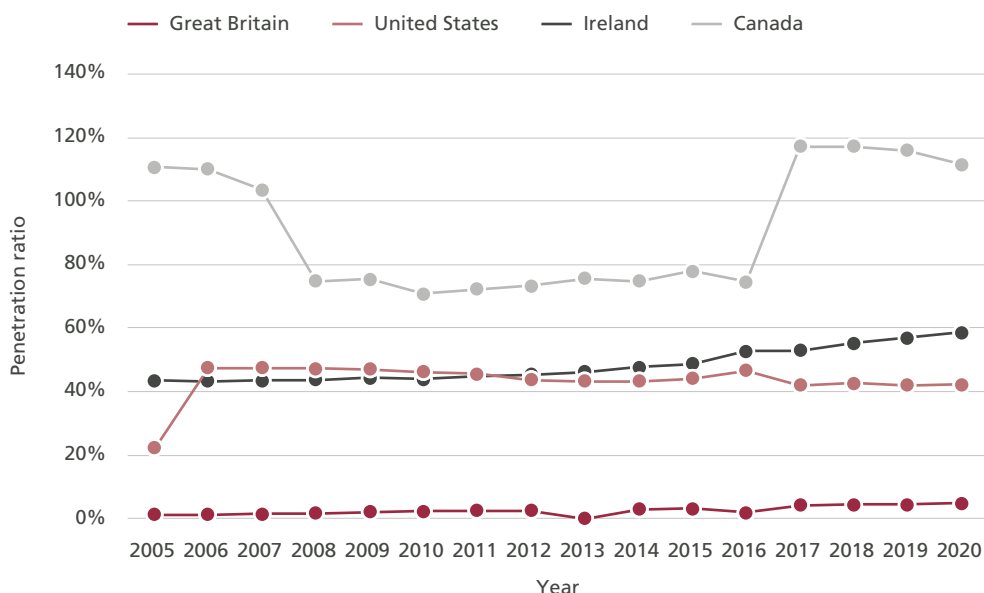
These services should not be mandated in legislation but made optional with additional regulatory compliance requirements as appropriate.

**8.2.3 Challenge 2: Credit union penetration rate and the common bond**

In Britain, credit unions have struggled to take off as they have in other countries and participation, also known as the penetration rate, is exceptionally low. Despite the growth of over 450,000 depositors<sup>155</sup> since 2013, the World Council of Credit Unions reports that Britain’s penetration rate is just 4.82 per cent – only marginally higher than it was in 2015, and below many other countries.

Internationally, Britain pales in comparison to other English-speaking countries who have a considerably higher penetration rate. Canada, the United States, and Ireland all have considerably higher rates, as shown in Figure 30 below.

Figure 29. Credit union penetration rate by country



Source: World Council of Credit Unions

<sup>155</sup> Calculated using figures from the Bank of England. These figures will differ from the World Council of Credit Unions due to collection parameters.

All credit unions have what is known as a 'common bond' that unites their members. Currently, these may be:

Table 9. Types of credit union common bond

Following a particular occupation
Being employed by a particular employer
Residing or being employed in a particular locality
Being a member of a bona fide organisation or being otherwise associated with other members of the society for a purpose other than that of forming a society to be a registered credit union
Any other common bond for the time being approved by the Financial Conduct Authority

Source: Credit Union Act 1979<sup>156</sup>

These common bonds unite the membership of a credit union and offer privileges to members, such as voting rights and access to the society's services. This naturally limits the number of people any credit union can take on to ensure that such bonds remain strong, and current legislation limits the number of potential members of a credit union to 3 million.<sup>157</sup> However, this has unintended consequences. A potential membership means that many credit unions may reach their *potential* three million members, but their actual membership, or penetration rate, is insufficient to ensure stability.

The geographic limitations placed upon credit unions can prevent them from supporting all those who desire their services and where you live determines if you have access to a credit union. Additionally, the potential membership limitation often restricts the number of credit unions operating in a given area to one due to limited penetration in general, and this makes for poor competition.

The common bond will always remain a vital part of what unites a credit union, but the current potential membership limit expressed in outdated legislation is reinforcing a low-growth regulatory environment at a time when credit unions are needed to support the financially excluded. Therefore, the Centre for Social Justice recommends that the common bond be reimagined and expanded from a *potential* membership of three million to a *maximum* membership of three million. This would allow credit unions to expand their membership across a greater geographic space, subject to constraints placed upon them by the common bond requirements and the Financial Conduct Authority.

<sup>156</sup> Legislation.gov.uk, *Credit Unions Act 1979*

<sup>157</sup> ABCUL, *Credit unions in Parliament*

**Recommendation 16: The Common Bond should be reshaped for the post-pandemic era – and to allow for a maximum of three million members.**

Enabling credit unions to grow is paramount if they are to embrace an economy of scale and support more vulnerable consumers from their profits. However, regulations that limit credit unions to a potential membership of three million members via their common bond are preventing that necessary growth. Potential membership rates limit the size of a credit union's common bond, for instance by geographical area, despite a low penetration rate and thus prevent growth.

The Centre for Social Justice suggests reshaping the common bond and changing the use of 'potential' membership restrictions to 'maximum' membership restrictions. This will allow credit unions to expand over a greater area within a wider common bond, which is enforced by the Financial Conduct Authority, and to offer more services.

### 8.2.4 Challenge 3: Capital requirements and access to the Bank of England's Sterling Access Monetary Framework

Credit unions face a challenging capital environment. We heard that some large credit unions face trouble raising their reserve at least in part due to the low loans to assets ratio mentioned previously. Credit unions are not able to fund growth through raising capital by issuing equity shares because they are owned by their members, and therefore they are almost entirely reliant on profits from loans to build their capital reserve fund.

This has been helped in recent years and changes made by the Prudential Regulation Authority reduced capital requirements on credit unions by removing additional capital requirements based on membership and relaxing capital requirements on total assets above or below £50 million.<sup>158</sup> This is expressed in the table and figure below.

Table 10. Changes to the capital requirements of credit unions

Total assets	2019 requirements	2021 requirements
Less than or equal to £5 million	3 per cent (5 per cent applies if membership is greater than 5,000. 8+2 per cent applies if membership is greater than 15,000 members or carries out additional activities)	3 per cent
Total assets greater than £5 million and less than or equal to £10 million	5 per cent (8+2 per cent applies if membership is greater than 15,000 or carries out additional activities)	5 per cent
Total assets greater than £10 million	8+2 per cent buffer	5 per cent of the first £10 million, 8 per cent of any assets above £10 million, 10 per cent of any assets above £50 million

<sup>158</sup> Prudential Regulation Authority, *PRA Rulebook 2019: Credit Unions*; Prudential Regulation Authority, *PRA Rulebook 2021: Credit Unions*; Bank of England, Prudential Regulation Authority, *Policy Statement PS6/20, Credit Unions: Review of the capital regime*, 2020

While these changes are beneficial, they are not enough. Many credit unions represent a low risk, either because their loans are secured against a member's cash deposits or because they have significant funds sitting in corporate bank accounts.<sup>159</sup>

The Centre for Social Justice therefore suggests that the Prudential Regulation Authority reviews current credit union capital requirements and outlines proposals that would allow the sector to move towards risk-based capital.

**Recommendation 17: The Prudential Regulation Authority should outline proposals to make credit union deposits risk based.**

Credit unions balance sheets can present a low risk. Member's loans are often attached to their cash deposit holdings and many unions have significant sums sitting in corporate bank accounts that represent very little risk.

While recent changes by the Prudential Regulation Authority to streamline credit unions are welcome and provide a welcome change, further moves could be made towards a capital regime that is commensurate with the limited risk credit unions face.

We therefore propose that the PRA outline proposals to make credit union deposits risk based.

**8.2.4.1 Access to the Bank of England's Sterling Access Monetary Framework**

The Bank of England's Sterling Access Monetary Framework provides another potential solution to the capital to assets ratio requirements that credit unions are currently subject to. Use of its deposit facilities would allow credit unions a risk-free place to store deposits and ease their capital to assets requirements by excluding central bank deposits from the Prudential Regulation Authority's' capital calculations.<sup>160</sup> This would mean the same treatment as banks and building societies.

But this would not be suitable for all credit unions and many may not be ready for such facilities. However, this does not warrant exclusion for those that are. It therefore makes sense for the Bank of England to set out the threshold it expects credit unions to meet for them to have access to the Sterling Monetary Framework.

159 ABCUL, *Prudential Regulation Authority – CP 28/19 – Credit unions: review of the capital regime*, 2019

160 Paul A. Jones, Nick Money, *The maximisation of savings in Irish and British credit unions: Success, opportunity or risk?*, p. 32



**Recommendation 18: The Bank of England should set out its requirements to allow credit unions to access the Bank of England's Sterling Access Monetary Framework**

As it stands, underused deposits place considerable stress on credit union's capital to assets ratio requirements and this must be eased to allow the sector to grow. Giving credit unions access to the Bank of England's Sterling Access Monetary Framework and its deposit facilities, offered to both banks and buildings societies, would be one potential solution.

Excluding these funds from capital to assets requirements would provide the flexibility required for large credit unions to manage their capital requirements and focus on growth.

However, this facility would not be suitable for all credit unions. Therefore, the Centre for Social Justice recommends that the Bank of England sets out its threshold requirements that it expects credit unions to meet before they can access the Bank's Sterling Access Monetary Framework.

### 8.2.5 Challenge 4: The need for big players to promote stability

Supporting credit unions to increase their penetration rate by enabling them to offer more products is a step in the right direction, but to be able to support the most financially vulnerable, credit unions need to be able to grow and offer stability.

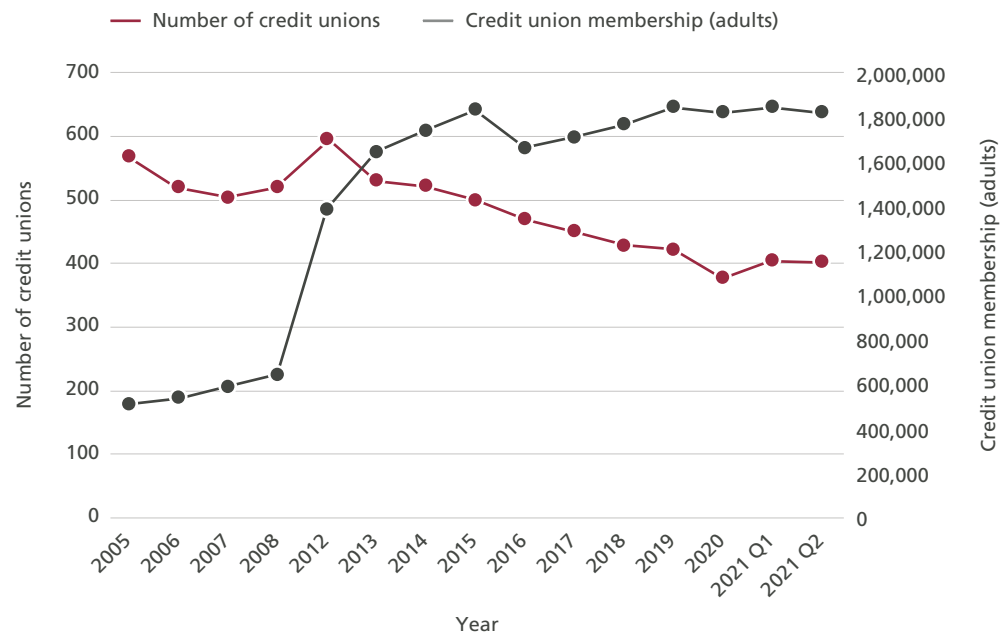
Smaller credit unions face numerous challenges, such as smaller balance books, a weaker ability to weather bad debt, lower professional staffing standards and less capacity to offer digital services. Not only do these issues make them uncompetitive, but, in many cases, inaccessible. Previous studies show that it is smaller credit unions that are more likely to fail.<sup>161</sup>

In recent years, the number of credit unions in the UK has been falling as membership increases. This is because credit unions either wind up their activities or merge to form bigger, more stable bodies. This is both an important and positive step for the sector and it is increasingly clear that mergers will be necessary to promote sustainability. But the cost and logistical problems raised by a merge can be difficult for some unions to overcome. Common bonds can sometimes be difficult to merge and the potential membership limits that currently exist mean some areas may lose their service. Fortunately, the recommendations made above make some headway to alleviating this issue and can therefore be expected to prompt further attempts to merge.

The cost of mergers can be overcome with a small amount of government support. The Centre for Social Justice therefore suggests that the Government create a bespoke Credit Union Mergers Fund to support the continued aggregation of the sector. The Government should conduct a survey of the sector to gauge demand in order to inform a cost-estimate for the fund.

<sup>161</sup> Bank of England, *The determinants of credit union failure in the United Kingdom: how important are macroeconomic factors?*, 2018, p. 9

Figure 30. Number of credit unions and credit union membership in the UK



Source: Bank of England and House of Commons Library<sup>162</sup>

### 8.2.6 Challenge 6: Driving a digital solution

Offering digital services has long been an ambition for the Association of British Credit Unions (ABCUL), and the Government has been receptive. In 2013, the Government committed to launching the £38 million Credit Union Expansion Project, which saw investment in Cornerstone Mutual Services and the creation of the ‘Model Credit Union platform’.<sup>163</sup> Yet there remains much more work to be done to expand credit unions’ digital offer. In its recent vision document, ABCUL found that 80 per cent of credit unions agreed that partnerships with FinTech providers is a key route to expanding their digital services.<sup>164</sup>

#### **Recommendation 19: HM Treasury should create a Credit Union Strategic Mergers Fund to support the creation of larger, sustainable credit unions.**

To succeed, credit unions must embrace economies of scale if they are to take on more members and use their newfound profits to expand their support for vulnerable consumers. This will only occur if the sector consolidates itself into fewer but bigger credit unions, which can cover a greater number of customers with ease. This will warrant strategic mergers.

The Centre for Social Justice recommends that HM Treasury supports the ambition for bigger, bolder credit unions by creating a Credit Union Mergers Fund to support the growth of the sector. This fund should be available to credit unions who have agreed on a strategic merger, and should support covering the essential costs associated with this, such as merging facilities and staff professionalisation.

<sup>162</sup> Bank of England, Credit Union Statistics; House of Commons Library, *Credit Unions*. These figures differ from the World Council of Credit Unions

<sup>163</sup> ABCUL, *A Lessons Learned Review of the Credit Union Expansion Project*, p. 28

<sup>164</sup> Association of British Credit Unions, *Vision 2025*

Research by the Centre for Social Justice with pioneering credit unions confirmed this desire. The credit unions we spoke to urged the importance of consolidation of individual credit unions into larger units, as recommended above, and agreed that access to digital technology was crucially important for ensuring maximum accessibility for their customers. Only by embracing this, it was widely agreed, could credit unions offer the services that their customers want at the time they want them.

Some credit unions already make good use of technology. Manchester Credit Union, for example, has become one of the first credit unions to advertise its products on Experian's comparison services. However, that access to digital solutions still remains out of reach for many credit unions. As credit unions grow, they will become more reliant on digital solutions to provide seamless and intuitive interactions for clients. Therefore, we propose that the Credit Union Mergers Fund build in financial support to enable credit unions to adopt digital services.

**Recommendation 20: The Credit Union Mergers Fund should include an allocation in order to support a digital transition for merging credit unions.**

Credit unions increasingly live in a digital age, interacting and supporting their clients through apps and taking advantage of online banking to conduct quick affordability checks and deliver responses. However, not all credit unions take advantage of this opportunity. For some, the cost of driving a digital solution is too expensive for the size of their business.

The CSJ envisions bigger, bolder credit unions that offer a greater array of services to a greater number of clients and that will involve strategic mergers. To encourage mergers and help catapult credit unions into the digital age, we propose that the Credit Union Mergers Fund should include funds to support the transition to digital services.

This would represent a step forward in the use of digital technology, but not all customers can have their applications seamlessly approved or rejected with the use of technology – some require manual underwriting. Receiving a fast decision even where manual underwriting is required is important, but the pressure to manually underwrite lending is resource intensive for some credit unions. We believe that large banks, which have far greater capacity to manually underwrite loans but do not typically service the market for small cash loans, should lend some of their underwriting capacity to credit unions in the name of social governance and supporting financial inclusion. This would enable credit unions to provide faster responses to client applications that require manual underwriting, and support those clients to remain financially included.

**Recommendation 21: Large banks should honour their commitment to social governance by lending spare capacity for manual underwriting to credit unions.**

Manual underwriting is necessary for some clients, but this process can be time and resource expensive, placing considerable pressure on a credit union's ability to deliver a timely response. Credit unions are some of the only providers of small, cash loans to clients regardless of their income. Large banks, which have far greater capacity to manually underwrite loans, should lend some of their underwriting capacity to credit unions as part of their commitment to social governance and financial inclusion. This would enable credit unions to provide faster responses to client applications that require manual underwriting and support those clients to remain financially included.

**Case study: Manchester Credit Union**

Since going live on Experian's loan aggregator in April 2021, Manchester Credit Union has approved about 180 loans received through the aggregator, totaling just under £700,000. Their ability to advertise their lending business to clients who live within their common bond area has increased traffic to the credit union by reaching people who otherwise wouldn't know about it. They now receive about 100 applications a month through the aggregator.

**8.2.7 Challenge 7: The need for a two-tier regulatory solution**

As larger credit unions continue to grow, offer new services, and expand their digital presence, it is increasingly clear that there will be two tiers of credit unions. Some credit unions may already satisfy their ambition to offer a sustainable lending service to local customers, while others wish to grow – both of which must be accounted for in regulation. Additional regulatory requirements will need to be placed on larger unions that offer a wider array of products to their client base while ensuring that the environment for nascent and small unions continues to be proportionate to their size and risk profile. The Centre for Social Justice therefore recommends that changes to the Credit Unions Act 1979 are permissive to ensure that new regulations are only applied to credit unions who offer wider services, thus warranting additional oversight. A proportionate regulatory environment for those which do not.

**Recommendation 22: The Government should work with regulators to ensure that new credit union legislation creates a two-tier regulatory environment for small and large credit unions, respectively.**

As credit unions grow and expand their services, many will be required to comply with new regulatory restrictions from which they are currently exempt. This is entirely appropriate.

We believe there to be considerable benefits to credit unions growing into larger scale providers, but not all credit unions will, either because they are unwilling or unable to do so. Those credit unions who do expand to offer a wider array of services will warrant further regulation, while those which do not will not.

Therefore, the CSJ recommends a two-tier regulatory framework be established to ensure that changes to legislation are permissive and require bigger credit unions to take on new regulatory responsibilities while allowing those to remain small to retain the proportionate environment they currently operate in.

**Case study: Northumberland Community Bank (NCB)**

Northumberland Community Bank is a financial co-operative offering clients low-cost, affordable loans for sums often below £1,000.

Offering digital services, the NCB can process and approve drawdown loans within a working day. Members are able to use Open Banking technology to have their application assessed and can access their accounts digitally through NCB's membership services. The NCB has also recently introduced a 'Faster Payments' initiative, allowing withdrawals to be requested in 'real-time'.

Using technology has allowed the NCB to expand quickly, gaining 2,000 new members in 2019 and 2020 alone and raising the amount of loans issued from just over a quarter of a million in 2016 to over three quarters of a million pounds in 2020.

### 8.3 Access to capital

Access to capital continues to be a key issue for some alternative finance institutions, particularly Community Financial Institutions (CDFIs). CDFIs have been shown to provide services to high risk consumers, but continue to lack the capital funding required to scale up their business.

In addition, as has been made clear in this report, illegal lending is not something solely confined to the world of low-income consumers, but also a number of higher income borrowers who report borrowing for business expenses – a market CDFIs also serve. In 2020, CDFIs lent £263 million to 6,000 enterprises, including 1,900 SMEs.<sup>165</sup>

<sup>165</sup> Responsible Finance, *Annual Industry Report*, 2021

We believe more must be done to support CDFIs access the capital that they need to scale up their business. Therefore, we propose that the Government supports the creation of an evaluation framework for Alternative Finance Institutions, such as CDFIs, which make it possible for investors and other funders to compare firms.

**Recommendation 23: The Government should support the creation of evaluation frameworks for alternative finance institutions to enable investors to compare firms.**

We believe more must be done to support CDFIs access the capital that they need to scale up their business. Therefore, we propose that the Government supports the creation of an evaluation framework for Alternative Finance Institutions, such as CDFIs, which make it possible for investors and other funders to compare firms.

In addition to this, as small institutions, CDFIs have a unique link to the communities that they support and their lending to people and businesses help those communities to thrive. In our Pillars of Community report, we found that just 25 per cent of respondents felt that the tax system encouraged giving to local causes compared to 48 per cent of people who felt that this is necessary for a strong community.<sup>166</sup> Therefore, we propose to increase incentives to support charitable giving.

**Case study: Purple Shoots**

Purple Shoots aims is to enable people held back by disadvantage, excluded from mainstream finance or socially isolated to change their lives in a long-term sustainable way. They support the community with access to a network of support and finance to start new businesses, so that the community can become a force for permanent change.

Purple Shoots works in an area of high deprivation caused by the loss of old industries. Local residents often lack assets and may have a history of illness, an adverse credit record, and usually find it hard to raise funding. Purple Shoots' support enables them to develop and follow their own pathways out of difficulties. They take a different view from other lenders. Their lending enables people turned down by others to start their own businesses – “we have very high and consistent demand for this, proving our belief that what many people need is not ‘help’ but just an opportunity and the wherewithal to seize it”.

Julie was a single mum, struggling to survive on benefits and low paid work. She had a strong career history before becoming a single parent when the barriers to flexible work meant a significant income reduction, repossession of her property, high private rents, and an adversely affected credit file.

Julie had an innovative business idea and running her own business would fit around her childcare responsibilities. Having launched, it took a couple of years for her to develop her brand, by which time her marketing budget was all gone and her cost of living so high that she could not achieve the required level of exposure to the correct market. With no money to invest in her business, Julie continued to work for low-pay, part-time jobs; remain on benefits; and to use high interest pay day loans to make up her rent shortfall.

<sup>166</sup> Centre for Social Justice, *Pillars of Community*, p. 49

During this, Julie decided to put all her struggles being a single mum into something to help others & launched the Single Mums Business Network (SMBN). This provided an added income stream and she approached Purple Shoots for a loan, in the knowledge that she could repay it in any event from all the activities even if the business side did not pick up quickly, and this money was used to build her & promote the SMBN. This turned her business around.

No other lender would help. Without a loan from Purple Shoots, Julie would still be in low-paid work in an under skilled role, struggling to pay creditors with a long-term need for benefits. Instead, she is now financially independent. Her company supports 5 other UK manufacturers, a self-employed seamstress and a freelance executive assistant. She also campaigns, via the SMBN, for Government to recognise that it is the barriers to salaried work and finance that trap people in a long-term cycle of benefits. Through the SMBN she helps her members, so that they do not struggle for as long as she did.

The Community Investment Tax Relief is a tax incentive that encourages investment in under-served communities by granting tax relief to corporate and individual investors. The relief is worth up to 25 per cent of the money invested, spread over 5 years. In order to continue to promote the growth of charitable giving, we recommend that this relief be increased to 35 per cent, spread over 7 years.

**Recommendation 24: The Government should promote charitable investment into alternative finance institutions by increasing the Community Investment Tax Relief to 35 per cent over 7 years.**

As small institutions, CDFIs have a unique link to the communities that they support and their lending to people and businesses help those communities to thrive. In our Pillars of Community report, we found that just 25 per cent of respondents felt that the tax system encouraged giving to local causes compared to 48 per cent of people who felt that this is necessary for a strong community. Therefore, we propose to increase incentives to support charitable giving.

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# Conclusion

Problem debt ruins lives. And as this report has shown, illegal lenders are another means by which the most disadvantaged Britons find themselves drowning in debt. Illegal money lending and the hidden debt it confers is both dangerous and exploitative. Hidden beneath the surface, many victims find themselves in the grips of an illegal lender for years, often without hope.

The CSJ produced this report in the hope of offering some illumination amidst the darkness surrounding this issue. We have outlined the forms that illegal lending takes in Britain today, the people it affects, and the tragic consequences it can have on their lives.

With storm clouds on the horizon, we can only expect hidden debt to increase. High inflation, steep energy price rises, and a cost-of-living crisis will see family finances strained. For many, this year could be their breaking point.

But there is cause for hope. This report has advanced a raft of ambitious but deliverable recommendations that the Government should adopt to clamp down on illegal lending and protect those most vulnerable to exploitation. We must begin by scaling up the profile and operations of the Illegal Money Lending Team and ensuring every Briton understands the danger of a loan shark.

And we must never lose sight of the importance of financial inclusion. The departure of high-cost credit providers from the market means that thousands of people on the edge of financial exclusion require a lifeline if they are stay afloat. Credit unions, CDFIs, and other low-cost alternatives can help to fill this gap, if only we let them. Meanwhile, building the financial resilience of the nation is more important than ever to navigate the further challenges that await us.

Finally, illegal lending is a crime, and the criminal justice system must mete out a proportionate and just response to their crimes. For the sake of the victims, the families, communities and nation they live in, it is high time the system approached this crime with seriousness it so clearly deserves.

Illegal lending remains a scourge on Britain today – and 2022 must be the year we take action.

You can't tell anyone. There's no-one to help you. You don't want to involve relatives and friends. You just have to pay him.

What has this done to me? I've been assaulted by her friends, had my windows put through and a fire started in my garden. My little boy sleeps with as he's too scared to sleep on his own. It's been 18 months of hell.

Charlotte, 39



# List of recommendations

## Identifying illegal lending

**Recommendation 1:** The Financial Conduct Authority should develop a cutting-edge approach to estimating the scale of illegal money lending.

## Clamping down on illegal lending

**Recommendation 2:** The Illegal Money Lending Team should be empowered to scale up its operations in light of the cost-of-living crisis.

**Recommendation 3:** The Government should launch a national advertising campaign to highlight the presence and dangers of loan sharks, as well as the support available from the IMLT.

**Recommendation 4:** The Government should amend the Financial Services and Markets Act 2000 to increase the tariff and achieve parity between fraud and illegal money lending. New sentencing guidelines should be issued to allow judges to interpret the relevant guidelines in line with the crime that is committed.

## Protecting the vulnerable

**Recommendation 5:** Debts to illegal money lenders should be added to the Standard Financial Statement and new training and guidance issued to debt advisers.

**Recommendation 6:** The Money and Pensions Service should commit to protecting face to face debt advice for the most vulnerable while driving technological efficiency via the use of open banking.

**Recommendation 7:** The Department for Levelling Up, Housing, and Communities should collate and share best practice amongst housing associations to ensure cutting edge support services.

**Recommendation 8:** The Department for Work and Pensions should develop updated guidance and training for JobCentre Plus work coaches to better identify and refer potential victims to the Illegal Money Lending Team.

**Recommendation 9:** Local councils should adopt the 2030 Challenge to ensure all are equipped with high-quality training on illegal lending.

**Recommendation 10:** Make illegal money lending a mandatory part of training for police community support officers.

## Providing the alternative

**Recommendation 11:** HM Treasury should promote the uptake of Help to Save.

**Recommendation 12:** The Government should review the generosity of the Help to Save scheme.

**Recommendation 13:** The Government should review the effectiveness of the existing financial education offer, with particular consideration given to the provision of education about the dangers of illegal lending.

**Recommendation 14:** The Government should rewrite the Credit Union Act 1979.

**Recommendation 15:** Credit unions should be allowed to provide a greater variety of services.

**Recommendation 16:** The Common Bond should be reshaped for the post-pandemic era – and to allow for a maximum of three million members.

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**Recommendation 24:** The Government should promote charitable investment into alternative finance institutions by increasing the Community Investment Tax Relief to 35 per cent over 7 years.



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